MUNICIPAL TRADE

THE ADVANTAGES AND DISADVANTAGES

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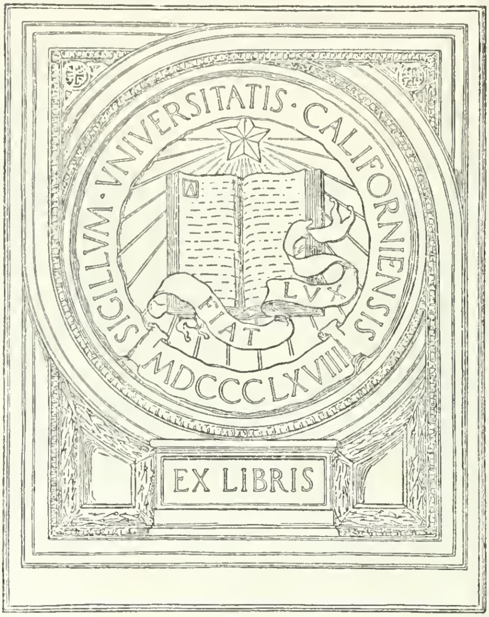

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MUNICIPAL TRADE

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THE ADVANTAGES AND DISADVANTAGES RESULTING FROM THE SUBSTITUTION OF REPRESENTATIVE BODIES FOR PRIVATE PROPRIETORS IN THE MANAGEMENT OF INDUSTRIAL UNDERTAKINGS

By MAJOR LEONARD DARWIN
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I.—HISTORICAL SKETCH 1

Municipal Trade was little practised sixty years ago; it is now increasing rapidly; and it is more extensively undertaken in Great Britain than in any other country.

(1) The phrase "Municipal Trade" need not be rigidly defined. (2) Municipal extravagance is not dealt with here. In this Chapter is traced the introduction of Municipal (3) Markets, (4) Baths, (5) Harbours, (6) Piers and (7) Water Supply. (8) As to the last-mentioned enterprise, large towns have led the way; and (9) very considerable sums have been invested in the United Kingdom (10) and in Foreign countries; (11) Hydraulic Power Works being sometimes added as an adjunct. (12) Municipal Gas-works in England (13) have been for the most part established since 1850; (14) and this trade is commonly municipalised in Germany but not elsewhere abroad. (15) In the Gas trade is included the manufacture of residual products. (16) Electric Lighting Works are generally in private hands in America; (17) on the Continent they are more often municipalised, and (18) this is the case with the majority of works in England. (19) The effect of terminable concessions will be to increase the number of municipal works. (20) Tramway enterprise has been more progressive and has been less frequently municipalised in America (21) and on the Continent, than (22) in England; and (23) municipal management will probably increase largely in Great Britain. (24) Omnibuses have been run in connection with Municipal Tramways. (25) Municipal House-building has only been recently undertaken in England. (26) Under the Act of 1890, Parts I. and II., municipalities may become, in exceptional cases, both house-builders and house-owners; (27) whilst Part III. gives to municipalities more definite powers of trading in house property. (28) Municipal house-building has been little practised abroad. (29) Pawnshops and Insurance. (30) Many other

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enterprises are carried on by a few municipalities; (31) and many demands have been made for further powers. (32) English municipal rates and (33) municipal debts are increasing rapidly, (34) and are considerably heavier than the local debts of other important countries. (35) Thus Municipal Trade is increasing rapidly, and is more extensively undertaken in Great Britain than elsewhere; (36) and here we have to consider how far this movement is a wise one.

II.—MUNICIPAL TRADE AND SOCIALISM . . . 28

This volume does not deal with Socialism; although no doubt Socialists are advocating Municipal Trade as a stepping-stone to some thoroughly socialistic system. The socialistic plea that workmen will receive more favourable treatment when employed by the State cannot be admitted as an argument in favour of Municipal Trade. The advantages and disadvantages resulting from municipalisation must, therefore, be balanced one against the other in each case separately.

(1) Although Municipal Trade and Socialism are products of the same forces (2) this volume does not deal with Socialism. (3) The socialistic argument based on the favourable treatment of workmen employed by municipalities must, however, be examined. (4) Fair wages clauses should be inserted either in all or in no contracts. (5) Municipal Trade is advocated as being beneficial to the workmen in both municipal and private employment. (6) As regards beneficial reforms involving no cost, they should generally be enforced by Parliament on all employers, public and private. (7) Costly benefits to municipal employees must increase the cost of municipal production. (8) Such benefits are justified neither by any problematical saving of contractors profits, (9) nor by the fact that municipalities can borrow money more cheaply, (10) nor by any possible increase of production therefrom. (11) But, if as a matter of fact municipal employees are more highly paid, how then can this be justified? (12) It can hardly be justified on account of the example set, because such examples are not followed. (13) The superior treatment of municipal workmen is equivalent to giving them a bonus out of the revenue; (14) and should be condemned on this, (15) and on other grounds. (16) Municipal employment and charity should not generally be combined. (17) The advantages and disadvantages of municipalising each trade should be separately considered.

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III.—MONOPOLIES 47

There is an increasing tendency for certain trades to become monopolies; and with it an increasing necessity for municipal control. The choice in such case lies between the municipalisation of the industries in question and subjecting them to State regulation. The former alternative is now more popular; but its popularity tells but little in its favour, because the arguments on the two sides are not placed with equal force before the people and because the injurious indirect effects are usually ignored.

(1) The tendency of trades to become monopolies has increased, and has tended to foster Municipal Trade. (2) This increase has been due to the law of increasing return, (3) which tends to make rival firms amalgamate; (4) to the effect of granting rights to interfere with the streets; (5) to the advantages arising from a large *clientèle*; (6) and to the increase in the value of land in towns. (7) In the case of monopolies, prices must be regulated by the State, (8) which may be done either by municipalisation or by the control of private undertakings; the choice between these methods being the subject here discussed. (9) This choice must also be considered in the case of competitive industries. (10) Merely to consider whether any industry will be well managed by the State does not help in making this choice. (11) To what extent should the popularity of Municipal Trade count in its favour? (12) Popularity based on sentiment proves nothing. (13) Municipal Trade may appear to be more popular than it is. (14) The evidence in favour of Municipal Trade is more voluminous than that in favour of private trade. (15) Legitimate pride prejudices both councillors and (16) officials. (17) Councillors represent both the consumers and the manufacturer in Municipal Trade. (18) Official utterances based on recently established enterprises are especially unreliable as an indication of success, (19) and popular opinion is largely based on such official evidence. (20) Popularity may, moreover, be dependent on temporary beneficial results, (21) which may be felt even though Municipal Trade is not the best system which could have been adopted. (22) Lastly, popularity is a delusive test, because it depends on obvious facts and arguments. (23) Summary of chapter.

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IV.—THE ADVANTAGES OF MUNICIPAL TRADE . 69

The strongest argument in favour of Municipal Trade is that companies, looking mainly to making profits, may, in the case of monopolies, ignore questions connected with public health, morals, order, or convenience. Municipal Trade is, therefore, undoubtedly right in many cases.

(1) To admit that the importance to the community of any industry justifies its municipalisation almost admits the case for Socialism; (2) and importance is no criterion as to how far municipalisation is advisable. (3) The onus of proof rests with those who demand municipalisation. (4) Rigid control or municipalisation is necessary with complete monopolies. (5) The State will pay more attention than private proprietors to health, morals, etc., and for this reason, (6) especially where prices are not easily estimated, (7) municipalisation is often advisable. (8) The Liquor traffic will not be discussed. Advantages may arise from the municipalisation of Baths, (9) Harbours, (10) Markets, Cemeteries, and Slaughter-houses. (11) But the arguments here considered do not necessarily tell in favour of the direct employment of labour. (12) Roads should be in public hands, (13) and thus arises an argument of no great weight in favour of municipal gas, water, and electric works and telephones. (14) The surface of the roadway should be in public hands; (15) though the tramway business need not therefore be entirely municipalised; (16) neither need tramways be initiated by Local Authorities. (17) The difficulty of estimating cost tells strongly for municipal water-works, (18) and but slightly for municipal gas and electrical works. (19) The necessity for a copious supply tells for municipal water-works, (20) but not for municipal gas or electric works. (21) Summary of chapter.

V.—ADMINISTRATION AND CORRUPTION . . . 94

Municipal Trade in moderation has a stimulating effect on Local Authorities; but, if extensively undertaken, it tends to lower their efficiency. And a large number of voters being in the pay of the State adds greatly to the probability of corruption.

(1) Municipal Trade stimulates public interest in local administration; (2) but it also has harmful effects. (3) Discontent may be

aroused against existing suffrage laws; (4) and the evils of the compounding system may be increased. (5) Discontent will also be produced by the taxation of traders to establish rivals to themselves; (6) by the suspicion that judicial functions are performed with partiality; (7) and by the action of contiguous municipalities. (8) Additional work due to municipal trading would lower the business capacity of Local Authorities, (9) and would tend to make them neglect their ordinary duties, (10) if it were very extensively undertaken. (11) Local Authorities should not be involved in labour disputes. (12) Voters being paid by the State is a source of danger because (13) their votes are apt to be given on personal grounds. (14) The more scrupulous the candidate the less likely is he to win the votes of State employees; (15) and scrupulous men, therefore, are less likely to become candidates. (16) Unscrupulous councillors will object to the presence of the scrupulous on Councils. (17) Appointments being given on political grounds, (18) and the insufficient salaries of municipal officials lead to corruption. (19) False steps in the direction of Municipal Trade are difficult to retrace. (20) Corruption tends to go from bad to worse. (21) The ballot is little protection against corruption. (22) The necessity of State management in certain cases makes Municipal Trade less, not more, advisable in other cases. (23) A small margin of corrupt voters may suffice to maintain a corrupt system. (24) We must not rely on the existing purity of our municipal administrations; (25) for the germs of disease already exist. (26) The corruption existing in large American cities, (27) and in the smaller towns, (28) should be a warning to England. (29) Corruption is used in the United States as an argument for municipal trading, (30) because in that country private enterprise leads to so much corruption. (31) Even if private enterprise now directly produces more corruption, Municipal Trade might, in the end, produce worse effects, (32) because, with many rate-paid voters, corruption is less easily eradicated. (33) The difficulty of eradicating the corruption due to private enterprise tends to diminish; (34) whereas the evils due to public management tend to increase. (35) In the United States, Civil Service reform is necessary, and (36) the regulation of private enterprise has been much neglected. (37) Complete monopolies should be granted. (38) Public management is more demoralising than public ownership. (39) Municipal Trade has been undertaken to a comparatively small extent in the United States, (40) and the case in its favour is not established. (41) In England Municipal Trade is more likely than private enterprise to introduce corruption. (42) Summary of the foregoing arguments as to corruption, (43) which tell with different weight in different cases. (44) Summary of the effect of Municipal Trade on administration.

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VI.—PUBLIC AND PRIVATE MANAGEMENT . . . 136

We should expect to find private management is, on the average, somewhat more efficient and decidedly more economical than public management.

(1) When Corporations and Boards are compared (2) it appears that Boards may be selected from a wider field ; (3) and, on account of the methods of election, (4) and of re-election, will normally contain more business men. (5) With regard to the influences acting on managing bodies, (6) voters being consumers, (7) and the ease of raising money, may lead to extravagance ; (8) whilst risks being thrown compulsorily on all ratepayers (9) and a want of initiative, may lead to uneconomical caution in municipal enterprise. (10) Progress in Municipal Trade may be checked by the inconvenience of Local Government areas, (11) or by the difficulties connected either with joint municipal enterprises, (12) or with work outside municipal areas. (13) Consequently private capital will be invested in enterprises capable of yielding a larger return. (14) Low salaries, (15) and promotion by seniority, (16) and, perhaps, more broken employment, make municipal officials somewhat less efficient and most costly ; (17) whilst other influences make them more powerful. (18) Slack discipline, (19) and various other influences tend to, (20) and certainly do make the municipal labour bill higher. (21) The economy of private trade is due to the stimulus of personal gain, (22) an influence less felt in monopolies. (23) Municipal inspectors will criticise private trades more keenly. (24) Shareholders can indicate their discontent by selling. (25) The main question as to monopolies is as to the remedy of grievances. (26) Councillors give their services for nothing. (27) Private trade is, on the whole, likely to be more economically managed, (28) a result which, if admitted, condemns the municipalisation of competitive trades ; whereas, as to monopolies, the advantages of Municipal Trade have to be weighed against this and other disadvantages.

VII.—RISKS AND GAINS 173

No gain is made by Municipal Trade unless a risk is run; and taking the more economical management of private trade into account, we should on a priori *grounds expect to find* *that communities have gained nothing financially by their municipal trading enterprises.*

(1) Municipal finance will first be discussed without reference to figures. (2) The question is not simply whether a profit will be made; (3) for when the word "profit" is defined, (4) it will be seen that we want to ascertain the *gains*, not the *profits*. (5) The gross income of private companies is paid away in (*a*) working expenses, (*b*) payments to Local Authorities, and (*c*) dividends, etc. (6) As to (*a*) the net profits will diminish on municipalisation if the management is less economical. (7) As to (*b*) municipal industries must be taxed like private industries. (8) Rents are a more important item amongst the payments to Local Authorities; (9) and rents formerly received, (10) or, rather, rents which might now be obtained, (11) as well as an allowance for all services which companies might be forced to render gratuitously, should be deducted from the net profit to find the gain. (12) As to (*c*), questions connected with risk and rate of interest have to be investigated. (13) The case of going works being bought will be first considered. (14) When borrowed money is invested, no gain can be made unless a risk is run; (15) and this law is applicable to Municipal Trade. (16) Municipal prestige, however, does make some little gain possible without a corresponding risk. (17) A part of municipal trading profits should be treated, not as a gain, but as an insurance against losses (18) sustained in any municipal enterprise undertaken by the same Local Authority. (19) The gains made by investing borrowed money are due to either exceptional knowledge or luck. (20) As exceptional knowledge cannot be claimed by Local Authorities, the financial results of municipal trading is largely a matter of chance. (21) For this reason, single instances of success or failure tell but little; (22) for the element of risk or chance is never absent. (23) The foregoing arguments are also applicable to municipal trades initiated by Local Authorities. (24) In considering the capture of the unearned increment, (25) the effect on prices of the concessions granted must be held in view. (26) Sliding scales of prices do not altogether meet the case. (27) The unearned increment is captured equally well by terminable concessions or by Municipal Trade, whether the works are built (28) or bought by Local Authorities. (29) Increments can be captured by violating existing bargains, (30) and concessions should always contain provisions for the necessary readjustments of prices, etc. (31) It is difficult to decide the price to be paid for fraudulently acquired concessions; (32) but, in all other cases, it should be decided by the value in the market. (33) Summary of Chapter.

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VIII.—MUNICIPAL STATISTICS 207

Turning to facts and figures in order to check these theoretical conclusions, the Local Government Board Returns afford the best information available; but the more these Returns are studied, the less reliable they appear to be as guides for future action.

(1) Reliable statistical results would be more satisfactory than theoretical conclusions. (2) An increase of remunerative loans appears to be correlated with an increase of rates; though the cause is obscure. (3) An abstract of the financial results of English municipal trades for four years is given; (4) and figures representing the net profits are thus obtained. (5) The future as well as the existing net profits must be considered. (6) Percentages cannot be usefully calculated on outstanding debts. (7) Gross profits should be calculated as percentages of the total capital provided. (8) Existing net profits are of little use as guides for future action; (9) but an estimated prospective net profit on gas-works can be calculated from existing gross profits, (10) a calculation, however, involving possibly erroneous assumptions. (11) Gas-works municipalised in years gone by are now more profitable than gas-works recently municipalised. (12) As regards the total reproductive undertakings, (13) a figure representing the estimated prospective net loss is given. (14) Thus figures indicating the required results can be obtained from these returns. (15) But can they be relied on? (16) As regards gas-works the results have been shown to be faulty, (17) and an endeavour has been made to correct them. (18) As to average results, certain items of expenditure are said not to have been properly charged. (19) There is some justification for charging depreciation on a lower scale in Municipal Trades; (20) but, if this has been done, the foregoing results require correction; (21) because, *inter alia*, Municipal Trade is in its infancy. (22) There are reasons for believing that the capital has been overstated, (23) and that it has been understated. (24) To estimate the gains, the net profits must be increased by the cost of inspection, (25) and diminished by the amount of possible rents; (26) a very important deduction. (27) These hypothetical rents will, in the absence of perpetual concessions, increase *pari passu* with municipal profits. (28) Past experience is unreliable as a guide for the future because it is scanty, (29) and because of changes in the rate of interest on loans. (30) The greater profit yielded by the older municipalisations does not indicate that profits will increase to that extent in future enterprises, (31) because industries tend to die out, (32) because

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the increase of population may not be maintained, (33) and because, as regards individual industries, the old enterprises were more profitable because more risk was involved. (34) In the foregoing discussion little reference has been made to price and quality.

IX.—PRICE AND QUALITY 247

The doubt as to the reliability of these Statistics is greatly increased if questions connected with price and quality are taken into consideration. And a general conclusion is reached that the probability of making a gain should never be held out as a legitimate inducement to cities to adopt Municipal Trade.

(1) The gain to the community from municipal trades is, to a large extent, independent of the level of prices charged by Local Authorities. (2) The results obtained in the preceding chapter can only be objected to (3) on the ground that the relative level of prices in municipal and private trade affects the question of possible rents. (4) Can we estimate the gains to the ratepayers and to the consumers separately, and, by combining the results, find the gain to the community? (5) As to the estimation of the gain to the consumer, (6) local circumstances greatly affect the prices of gas, (7) and tramways fares, etc. (8) Comparisons between prices charged in pairs of towns may tell unduly in favour of Municipal Trade. (9) If separately considered, the reductions in prices made by municipalities tell but little. (10) The rents actually paid by private proprietors, (11) the length of their concessions, (12) and the risk run by them, must all be allowed for in all comparisons of prices. (13) Local Authorities, who have built or bought works, have, in effect, granted to themselves perpetual concessions. (14) In short, the difficulties connected with all methods of comparing prices are at present almost unsurmountable. (15) Thus neither as regards prices, (16) nor as regards quality, can we say which way the balance of argument tells. (17) Enquiries as to the financial results of Municipal Trade must involve the consideration in detail of questions of price and quality, (18) and if these considerations are omitted, the results are valueless as regards its effects on the community as a whole. (19) Do statistics confirm the theoretical conclusions arrived at in chap. vii.? (20) Average results should be mainly relied on, (21) though they may be vitiated by the effect of causes affecting many industries. (22) Are conclusions based on *a priori* reasoning, or are those based on statistics most to be relied on? (23) Some circumstances merely throw doubt on statistical results; (24) others

make them appear too discouraging; (25) but possible rents, (26) and many other considerations indicate that they are too encouraging. (27) Thus statistics do not refute *a priori* reasoning. (28) The contrast between the statistical, and (29) the theoretical conclusions is illustrated in another manner, (30) an illustration which indicates that no material gain or loss has directly resulted from Municipal Trade, although taxation is now being increased thereby. (31) That this loss will become a gain in time is no argument for Municipal Trade. (32) Indirect financial results must now be considered. (33) Though tramways, etc., do no doubt raise the value of rateable property, (34) Municipal Trade, even if it were more progressive than private trade, might not increase the revenue; (35) and, as it is less progressive, it cannot do so. (36) To spend public money in order to raise the value of private property is dangerous. (37) Municipal Trade tends to encourage municipal extravagance. (38) Municipal Trade, if extensively practised, would materially diminish the public revenues, and no industry should be municipalised in the hope of making a gain.

X.—COMPETITION AND PROTECTION 284

Municipal Trade diminishes competition, and checks progress. The more competitive the trade, the more disadvantageous will be the results of its being managed by a public body.

(1) Does Municipal Trade do harm by lessening competition? (2) As this volume does not deal with Socialism generally, (3) the advantages of competition and free trade will be but briefly sketched; (4) advantages which are not outweighed by the serious corresponding disadvantages. (5) Domestic water supply is the only completely non-competitive Municipal Trade. (6) Local Authorities will always protect themselves from competition as much as possible. (7) When two trades are managed by one municipality there is no true competition between them. (8) Municipalities obtain protection more readily than private traders because their services are said to be for the public good and at the public expense. (9) Local Authorities can hinder private electric enterprises, etc., by refusing to give assent, (10) or by obtaining Provisional Orders and doing nothing, (11) or by opposing Bills in Parliament. (12) Competition between public and private trade is not on even terms; (13) and the mere fear of municipal opposition checks private enterprise. (14) Allied industries may be permanently injured by municipal opposition. (15) Summary of the harmful effects of Municipal Trade in limiting competition in the case of industries tending to become monopolies. (16) The effects on competitive trade must also be

considered. (17) The desire and probably the power to obtain protection will increase with any increase in the field of Municipal Trade, (18) and any limitation of competition will be proportionately more harmful the more the trades municipalised are naturally free. (19) To limit competition would probably be injurious in the case of the *sale* of goods, (20) and still more injurious in the case of the *manufacture* of goods, (21) and most injurious as regards the initiation and construction of works. (22) Municipal constructive enterprise produces centralising influences, (23) which are especially harmful because industrial initiative in a nation is a slow growth. (24) Municipal Trade is most frequently undertaken when there is only competition in production, (25) and in these circumstances there is less risk of heavy losses and less chance of large profits than when there is competition in construction. (26) Municipalities are less likely than private proprietors to make rapid advances in competitive industries, because great business capacity and initiative are required, (27) because public funds are risked, (28) because they are less free to make bargains, (29) and because their work will be confined within given areas. (30) Many objections previously urged against Municipal Trade apply with special force in the case of competitive trades ; (31) whilst the arguments in its favour are considerably weaker. (32) Municipal Trade cannot, however, be confined to monopolies, (33) and the certainty of competition arising tells against the municipalisation of all industries except domestic water supply. (34) Summary of conclusions with regard to the municipalisation of trades which do not tend to become monopolies.

XI.—MUNICIPAL HOUSE-BUILDING 319

House-building is selected as an example of the way in which all the arguments for and against Municipal Trade should be weighed before a decision is arrived at in the case of each separate industry ; the arguments in this case telling strongly against this branch of Municipal Trade.

(1) Only questions connected with the choice between municipal and private enterprise will here be considered. (2) The housing question is complicated because various objects are aimed at ; (3) and because different trades may be municipalised in different cases. (4) Municipal Trade gives no assistance in dealing with questions connected with land tenure ; (5) and the refusal of private firms to build on cleared areas is no argument in its favour. (6) Any sanitary regulations can be enforced in the construction of

houses by private proprietors; and, for the same cost houses, built by municipalities would not necessarily be more healthy. (7) Municipalities can do little or no good by example. (8) When slum areas have been rehoused by Municipal Trade, few of the individuals dehoused have been rehoused, and it has therefore been urged that municipal house-building is a failure. (9) But the same results as to rehousing, which are to a certain extent beneficial, would probably have followed the erection of houses by private firms on slum areas. (10) Compulsory housing operations are generally costly; (11) and the money thus spent acts in part as the award of a bonus both to the manufacturer and to the workman to remain in central crowded areas. (12) Local Authorities should, therefore, be allowed greater discretion as to rebuilding; (13) a discretion which would tend to lessen the amount of Municipal Trade undertaken. (14) Municipal housing operations are more costly than private enterprises because less attention is paid to rent earning, (15) and because the management is less business-like. (16) It is impossible to estimate accurately from statistics the losses actually incurred in municipal housing operations, (17) or the losses which would have been incurred had the work been entrusted to private trade. (18) Our conclusions must be largely guided by common-sense considerations; and such considerations tell against municipal house-building. (19) The effect of universal municipal house-building would be disastrous; (20) and, if partially undertaken, it hampers private trade, and may diminish the total number of houses available. (21) Municipal house-owning greatly increases the probability of municipal corruption; (22) and the balance of argument is, on the whole, strongly against this form of Municipal Trade.

XII.—LEGISLATION WITH REFERENCE TO MUNICIPAL TRADE 346

Looking to the future, a reformed municipal trade should be compared with a reformed private trade. Profit-making by municipalities should not, on economic grounds, be prohibited; but debts should be more rapidly redeemed when profits are being made. Many minor reforms are possible; but the disadvantages connected with Municipal Trade cannot be materially lessened by legislation.

(1) Possible legislation with regard both to Municipal and to private Trade must be considered. (2) What prices should be charged by municipalities? (3) Sinking funds must be instituted; (4) but prices must not be so low as to throw any of the cost of these

sinking funds on the rates. (5) High prices charged by Local Authorities, though they are like indirect taxation, are not therefore necessarily objectionable; (6) except on the ground that indirect competitors are thus benefited. (7) Low prices may be objectionable in Municipal Trade on the ground that they amount to the award of a bounty to the consumer. (8) Prices, therefore, in Municipal Trade should bear the same proportion to the cost of production as is the case in private trade. (9) The rent paid by private proprietors for concessions should be regarded partly as a rent and partly as a tax on the goods sold; (10) and the fact that such rents can readily be obtained does not prove that they are unobjectionable. (11) Such rents, if excessive, are no less objectionable if included in the costs (or the profits) of municipal trades. (12) Prices should not be lowered because of the low rate of interest paid on municipal loans; (13) and prices should not be raised to cover any increase of wages above the normal level. (14) The safest rule is that no net profit should be made whilst the full payment is being made in respect of interest and repayments of principal. (15) When the debts are wholly or largely redeemed, prices must be considerably reduced or a considerable net profit must be made. (16) Of these alternatives, the making of a profit should be selected because low prices either check progress, (17) or act as a bounty. (18) No serious objections can be raised against existing sinking fund arrangements, (19) except that debts might with advantage be redeemed more rapidly when profits are available. (20) Summary of conclusions as to profits and prices; (21) conclusions which could hardly be enforced by law. (22) To prohibit the making of net profits would, therefore, be unwise. (23) Risk to the unbenefited ratepayer cannot be avoided by law. (24) Too low prices are a more probable contingency than too high prices. (25) Municipalities often trade outside their areas, (26) and preferential charges should be prohibited. (27) Municipal trades covering several districts should be placed under Joint Boards. (28) Legislative safeguards against corruption, (29) and against the evils of centralising influences are impracticable. (30) Municipalities should not be allowed to acquire objectionable powers (31) and government auditors should be appointed. (32) No legislation affecting Municipal Trade would materially affect the comparison between it and private trade.

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XIII.—LEGISLATION AFFECTING PRIVATE TRADE . 384

On the other hand, much might be done to lessen the evils connected with the retention of monopolies in private hands, though not without some corresponding disadvantages.

(1) Possible legislation affecting competitive private trades need not be discussed. (2) Reform is needed with regard to the private management of trades tending to become monopolies. (3) Legislation concerning the granting of concessions in future will first be considered. (4) The demand for rapid progress is antagonistic to the demand for low prices or light taxation. (5) In England the promoter has been crippled, whilst the consumer has not been sufficiently safeguarded. (6) In questions concerning the granting of concessions, (7) and in disputes as to the terms of concessions after they have been granted, Local Authorities and promoters may represent the counsel on the two sides, the one being prepared to advocate the interests of the citizens, and the other to advocate the interests of the private investors. (8) The Local Authority cannot well be the judge as well as the counsel. (9) Technical knowledge is necessary for the decision of these questions. (10) Some Government office should be represented at enquiries concerning concessions; (11) but the final decision should rest with a Commission, (12) of a type which does not exist at present in England. (13) Description of the Massachusetts Commission. (14) A final appeal to Parliament must exist; but its use should be restricted. (15) The consent of the Local Authority should not be essential. (16) Concessions are now granted in accordance with no fixed principles. (17) Monopolies may with proper safeguards be granted to companies, and neither other companies nor (18) Local Authorities should be permitted to compete. (19) What should be the length of the concession period? (20) Perpetual concessions will not materially hinder the municipalisation of industries, (21) and, as at present granted, they are in many ways objectionable. (22) Concessions for short terms have produced harmful effects; (23) but it does not follow that to lengthen them would be the best reform. (24) If, when companies are bought out, shareholders are likely to receive less than their original investment, a tax will inevitably be thrown on the consumer during the concession period. (25) The valuation must be such as to attract capital freely. (26) The valuation should be more liberal, (27) and municipalities should have the right of purchase at all times; (28) though there may be exceptions to this rule. (29) The danger of corruption will be lessened by the establishment of a Commission. (30) Terminable concessions had better include sliding scales of prices and variable

rents, (31) one or both as the case may require. (32) The Commission might be called in to arbitrate as to prices. (33) Statutory limitations of dividends are never advisable. (34) Precautions should be taken against over-capitalisation. (35) Powers of inspection of works and documents of private proprietors, owning municipal concessions should be retained; (36) and the Commission should also have power to inspect all Municipal Trades. (37) Some of the work in the streets might be owned and repaired by municipalities. (38) Summary of recommendations as to the granting of new concessions in future. (39) Terminable concessions can be substituted for perpetual concessions; (40) and this should be done if the result would be beneficial, (41) the Commission deciding on the compensation to be paid. (42) The foregoing must be regarded as tentative suggestions. Note on the method of valuation for terminable concessions.

XIV.—CONCLUSION 430

Two questions have to be considered—(1) What trades should Parliament permit municipalities to manage? (2) What trades would municipalities wisely undertake to manage? To neither question can a very definite answer be given. But Local Authorities are advancing too rapidly in the path of Municipal Trade. Reforms are, therefore, needed—(1) to more effectually safeguard the consumer and the ratepayer when monopolies are managed by private proprietors; (2) to check excessive Municipal Trading; and (3) to render Municipal Trade as little harmful as possible. What is needed most of all is an increase in the interest of the public in municipal affairs.

(1) Brief summary of the arguments for and against Municipal Trade generally, (2) and in the case of industries which tend to become monopolies. (3) Opinions differ greatly as to where the line should be drawn, (4) and no general formula can be suggested. (5) There are two distinct questions—What municipal trades should Parliament permit? (6) And what trades should Municipalities undertake? (7) Economic and political safeguards suitable to prevent unwise municipal trading must be considered. (8) First amongst such checks are certain reforms affecting private trade; (9) of which a summary is given. (10) A limitation of municipal debts would have certain advantages; (11) and certain disadvantages.

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(12) A referendum on loans would be a better reform. (13) The prohibition of profit-making has been advocated. (14) The compounding system should, if possible, be abolished; (15) and it would be logical to entrust municipal trades to representative bodies elected *ad hoc.* (16) Reforms are also required in order to make such Municipal Trade as is undertaken less objectionable; (17) and the whole question should be thoroughly investigated. (18) The reaction against individualism has gone too far. (19) What is most of all needed is public interest in Municipal affairs.

APPENDIX 453

Report of Joint Committee of Lords and Commons of 1903, *dealing chiefly with Municipal Accounts and Municipal Audit.*

MUNICIPAL TRADE

I

HISTORICAL SKETCH

(1) "MUNICIPAL TRADE" has been selected as the title of this volume because it indicates, in the simplest manner, the subject matter to be discussed. It is not, therefore, necessary to attempt to give a rigid definition of the meaning of these words. It will be sufficient to remark that they are intended to cover all enterprises managed by Local Authorities which, when they are undertaken by private traders, are, as a rule, worked with the object of making a profit; and that under the title of Local Authorities are included City Corporations, Borough Councils, County Councils, and District Councils. Municipal Trade is, no doubt, not altogether a happy expression; for it gives the impression that the Local Authorities concerned are also mainly interested in the question of profit and loss, which is very often not the case. The phrase is, however, now so well understood that no confusion is likely to arise from its use.

(2) What are the trades which can be managed by Local Authorities with advantage to the community at large? This is the main question to be discussed in this volume. Municipal extravagance has no doubt been coupled with Municipal Trade in many recent discussions; for some of the influences which are making for the one are also making for the other. It is, however, to be noted that municipal trading may be undertaken without any municipal extravagance, and that municipal extravagance may exist without any municipal trading. By adding extravagance to the subject matter for enquiry, a much wider field would be opened out; but I have thought it best to confine myself strictly to Municipal Trade in this volume. Before passing on to consider the arguments for and against the management of remunerative undertakings by Local Authorities, a brief historical sketch will be given of the rise and development of Municipal Trade; mainly with the object of showing that it is difficult to say at what particular stage in the evolution of modern municipal functions it may fairly be said that municipal trading commenced; of pointing out that, whilst Municipal Trade is no recent introduction, it has been enormously developed during the last few years; and, lastly, of indicating that this development is proceeding more rapidly in England than in any other important country. In a few German cities Municipal Trade is perhaps carried to greater lengths than in any English town; but, as regards a comparison between the whole of the two countries, the foregoing statement is, I believe, correct.

Readers familiar with the literature of municipal affairs are recommended to omit the remainder of this chapter, as it contains nothing which has not been recounted more fully elsewhere.[1]

(3) *Markets.*—The actual number of the different kinds of enterprises which have, up to the present time, been extensively municipalised is small, and it will be convenient in this historical sketch to consider each one separately, taking them as far as possible in the chronological order of their adoption as municipal trades. Markets may therefore appropriately head the list, for they have been owned by some German towns for over a thousand years, and many English towns hold their market rights and properties by "ancient charter." In no country, however, is there more than a small number of ancient public markets, or indeed of any other long established remunerative enterprises; for it was not until the middle of the nineteenth century that the movement in favour of buying up any of the rights of private owners began to make itself felt. At about that time several of our large towns acquired markets by purchase from the Lords of the Manor, and the development of this class of enterprise is still proceeding, loans for this purpose to the extent of over £700,000 having been sanctioned in England and Wales during the years 1895 to 1899. The owning of a market hardly, it is true, appears to be of the nature of trading, and at first sight it may be thought to be a mistake to include this enterprise in any discussion on Municipal Trade. But these markets are often very lucrative properties, and when we find that the more recent developments in connection with municipal markets

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[1] Fairlie's "Municipal Administration," and Shaw's "Municipal Government in Great Britain" and "Municipal Government in Continental Europe," have been largely used in compilation of this chapter.

include slaughter-houses, cold air stores, ice manufactories, and the sale of "surplus" ice, and that the right to sell the ice to the public without restriction has been demanded, the difficulty of excluding municipal markets from municipal trading becomes apparent.[1]

(4) *Baths.* — Municipal bathing establishments afford another instance of the gradation from what certainly is not trading to what certainly is. Free public baths, in the first instance mere open bathing places, have been established for several centuries in Germany; but, as in the case of markets, it can hardly be said that much progress was made in the movement in favour of municipal bathing establishments before the year 1850. In 1846 the English Baths and Wash-Houses Act was passed to facilitate the establishment of public baths and laundries, and several towns soon took advantage of its provisions. Municipal baths are now commonly found in England, the United States, and Germany, and are met with somewhat less frequently in France, though Paris is ahead of London in having opened school baths in a number of instances. In several English towns public wash-houses have, moreover, been provided, where family washing may be done. Glasgow has also established "a general laundry "business, drawing its patronage from all classes of "society,"[2] whilst Hastings has demanded the right to own and let out bathing machines.[3] The town

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[1] Report from the Joint Committee of Lords and Commons on Municipal Trading, 1900, Q. 350. In future referred to as M.T.R. The references given in this volume are frequently given merely to facilitate further enquiries on the part of any reader; and opinions both for *and against* the views advocated in the text are thus referred to.

[2] "Municipal Government in Great Britain," Shaw, p. 110.

[3] M.T.R., Q. 548.

of Harrogate, following the example of several Continental cities, owns and manages a large medical bathing establishment, and, having acquired the power to provide entertainments, possesses a first-class band, the object being to attract visitors.

(5) *Harbours and Docks.*—A few English Local Authorities have dealt with harbours for over three hundred years; but, probably because these works were initiated when municipal bodies were less powerful than they are at present, we now frequently find them under the management of special Boards or Trusts. On these Boards, besides the representatives of the local commercial interests, there are usually a number of nominees of the municipalities concerned, and the harbours in their charge may often fairly be described as municipal enterprises. The bulk of the capital expenditure on such undertakings, as, for instance, that incurred in the deepening of rivers, produces no profit to the managing body, involves no risk, and has not, therefore, the characteristics of a trade investment. For this reason, or because the profit, if any be made, accrues to a Trust and not to a Local Authority, we find that in 1898 there were local debts to the amount of over £37,000,000 for harbours, piers, docks, and embankments, a large proportion of which sum was not included in the English Local Government Returns of Reproductive Undertakings. Amongst these local debts is included the sum of £5,000,000 contributed by the city of Manchester to the Manchester Ship Canal Company. The Corporation, no doubt, hope that the general prosperity of the city will be furthered by this great undertaking; but, whatever the

object of the loan, the consequence is that the ratepayers of Manchester, whether they individually wish it or not, must share to a certain extent in the fortunes of a commercial company.

Municipal docks and harbours exist in the United States, Germany, and Holland; but in other countries these undertakings are more frequently managed by the Central Governments.

(6) *Piers, Quays, and Ferries.*—A capital expenditure of over £4,000,000 is shown in a recent Local Government Return of Reproductive Undertakings under the heading of "Piers, Quays, etc," a sum probably included in the above-mentioned debts incurred for harbours, etc. Expenditure on remunerative ferries is also included under this heading, the Birkenhead Corporation making a net profit of over £10,000 a year from this source. The Return does not comprise works undertaken by the London County Council; but, even if it had done so, the expenditure on the Woolwich ferry would probably not have been included, no payment being demanded from the public for its use. Working a ferry for a profit is certainly a trading enterprise; whereas any expenditure of money on running a free ferry, which may be defended on the ground of its analogy to the expenditure on building a free bridge, is certainly not a commercial venture.

(7) *Water Supply.*—In mediæval times many towns controlled the primitive water supplies then existing; and several Municipal Corporations claim to have undertaken this duty at a very early date. Southampton leased its water supply from a monastery in 1440; and even in the United States

we find that the public supply of water at Boston dates back as far as 1652. But these facts are of interest to the antiquary rather than to the student of Municipal Trade; for the total number of water-works in the hands of municipalities before the middle of the nineteenth century was in fact very small. Before that time a large number of private water companies existed, one of the oldest being the New River Company, which took over the then existing arrangements from the London Municipal Authorities in the reign of James I., and greatly enlarged the supplies. Many of these private works have now been bought up by Local Authorities, the practice of acquiring compulsorily both gas and water-works under Parliamentary powers without the consent of the companies concerned having increased to an "enormous extent" during the last quarter of the nineteenth century.[1]

(8) As with all other movements connected with Municipal Trade, the large towns have led the way in England in the municipalisation of water supplies. In 1830 the Corporation of Sheffield took over the management of the water-works. Manchester acquired the property of a private company in 1847; and in 1879 the Corporation of that city bought Thirlmere, 95 miles distant, in order to meet the increasing demands for water. Glasgow followed much the same course, buying up a private company under Parliamentary powers acquired in 1855, and in 1860 enlarging its supplies by bringing water from Loch Katrine, 34 miles distant. Birmingham municipalised its water supply in 1874, and is now busily engaged in completing

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[1] M.T.R., Q. 613.

its great Elan River scheme; whilst the Liverpool Corporation completed the connection with Lake Vyrnwy, 68 miles distant, in 1892. Lastly, the various private water companies serving a wide area in and around London are about to be bought up and placed under a Joint Board, on which many local governing bodies are to be represented; and now only 6 out of the 29 towns in Great Britain with populations of over 100,000 receive their water supplies from companies. The smaller Corporations, generally speaking, came somewhat later into the field, and have been less active in this direction; only 226 out of 519 Municipal Boroughs in Great Britain having acquired the management of their water supplies by 1890.[1]

(9) The supply of water is now by far the most important of the Municipal Reproductive Undertakings, the total capital provided in England and Wales in 1902 being about £57,000,000 out of a total of over £120,000,000 for all such undertakings.[2] To show how recent has been the development of this class of municipal enterprise it may be remarked that about £15,000,000 out of the total capital provided of somewhat over £48,000,000 was borrowed during the five years ending in 1899.[3]

(10) In the matter of water supply, cities in the United States and Germany have followed much the same course as English municipalities. In 1835 Philadelphia was the only important American city with a municipal water supply; whilst in 1890, of the cities with a population of over 30,000, 94 had municipal water-works as against 35 with

[1] M.T.R., Q. 12.

[2] L.G.B., Return No. 398 for 1902.

[3] M.T.R., Q, 938.

private works, the smaller cities having a somewhat larger proportion of private works. All German cities, with a few unimportant exceptions, now own and operate their water-works; whilst in the Latin countries private supplies are more numerous.

(11) Many municipalities make a loss on their water-works, evidently regarding profit as a secondary consideration; in England, householders are generally charged according to the value of the house to which the supply is taken, and not according to the amount of water supplied; and in some French towns the cost of supplying water is defrayed by a tax and not by a water rate. All these circumstances make the supply of water by a municipality unlike an ordinary trade. But when, as at Glasgow, hydraulic power works are added as an adjunct to the water-works for the purpose of supplying water under high pressure as a motive power for lifts and other machinery, we are dealing with an enterprise which has all the characteristics of a trade.[1]

(12) *Gas.*—The use of gas as an illuminant was introduced about the year 1800; and for the first half of the nineteenth century the supply was almost exclusively in the hands of private companies. This industry necessitates the laying of pipes under the streets; and the right to do such work either was granted to a company by the Local Authority under a general Act of Parliament, or was acquired by a company by a Private Act affecting that company only. But as the desire for municipal enterprise increased, more and more of these private gas companies sold their rights and properties voluntarily

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[1] M.T.R., Q. 2738.

or involuntarily to Municipal Corporations, who thereupon undertook the management of these works. The number of English private gas-works is, however, even now nearly double the number of the municipal gas-works, and such important places as London, Liverpool, Sheffield, Bristol, and Hull still leave their gas supplies in private hands.

(13) Certain general Acts of Parliament confer on all Local Authorities the right to establish gas-works, and to supply gas within their own districts, provided such supplies do not compete with private gas-works trading under Private Acts of Parliament. But, as a fact, few undertakings have been initiated in this way by Local Authorities, nearly all the existing municipal gas-works having been first built by private traders, and subsequently transferred to public hands. Manchester is an exception to this rule; for in 1824 the local Police Commissioners set in operation the first publicly managed gas-works; works which were transferred to the Manchester Corporation by Act of Parliament in 1843. The growth of municipal enterprise may, perhaps, be best illustrated by reference to Local Government Board Returns from which it appears that the numbers of Municipal Corporations which commenced managing gas undertakings during the following periods were as follows:—

3	1820-39
5	1840-49
11	1850-59
14	1860-69
38	1870-79
12	1880-89
12	1890-99

The falling off in numbers in the last two decades here given is not, I think, to be accounted for by any diminution of the desire felt by Municipal Authorities to undertake the management of such enterprises, but rather to the fact that the gas-works had been municipalised before 1880 in most of the towns where the desire for municipal management was keenly felt.

(14) As regards foreign countries, we find that in Germany a larger proportion of gas-works are managed by municipalities than in England, the governments of 51 out of the 54 cities of over 50,000 inhabitants having undertaken this business. In the United States there are only 14 cities with municipal gas-works as compared with 951 private plants. In France the gas supply has also been largely left in private hands; the terms on which the companies have been allowed to trade having, however, received the most careful attention. Brussels is one of the few large towns in Belgium or France which have a municipal gas supply.

(15) English municipalities managing gas-works have, as a rule, the right to make and sell all residual products, such as coke, breeze, tar, ammoniacal liquor, etc., and to sell or let out gas fittings and meters, but not to manufacture them. This latter prohibition is a recent introduction into Parliamentary practice, many Local Authorities having acquired the right to manufacture under special Acts passed in earlier years, or in consequence of the transference to them without restriction of the rights and powers of private gas companies. Local Authorities, it is said, have shown "a tendency to "ask for powers to manufacture and sell" gas fittings during the last few years.

(16) *Electric Lighting.*—This method of illu-

mination was first used for street lighting in 1880 in the United States, and by 1898 there were in that country 2578 private electric lighting plants as compared with 468 plants managed by municipalities. Even this contrast does not correctly indicate the excess of private over municipal enterprise; for municipal works are, for the most part, only found in the small towns, and, in many cases, they only supply electricity for street lighting. Electric industries have been, in fact, developed very rapidly in the United States; and have remained very largely in private hands. Whether these two circumstances have any connection with each other will be considered at a later stage.

(17) "On the continent of Europe most public "electric light plants in Teutonic countries are "municipal. In Germany, however, there are a "number of important exceptions to this rule." Hamburg owns its electric lighting works, but leases them out to a private contractor. "In "France, Italy, and Belgium municipal electric "plants are almost unknown."[1]

(18) Electrical industries have been far less progressive in England than in the United States. The first municipal electric lighting works were established at Bradford in 1889; and by 1900 there were 130 municipal works as compared with 68 works in private hands, the municipal being on the average larger than the private undertakings, not smaller, as in the United States. Newcastle, Norwich, and Preston are, I believe, the only towns with more than 100,000 inhabitants which have no municipal electrical works. Although the

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[1] "Municipal Administration," Fairlie, p. 287.

Acts of Parliament under which municipalities acquire the necessary powers are called Electric *Lighting* Acts, yet there is nothing in them to prevent the electricity thus made from being used to supply motive power for machinery; and no doubt it will be thus largely used in future.

(19) Not only are electrical works more frequently managed by Local Authorities in England than elsewhere, but this branch of Municipal Trade is almost certain to increase largely in the future. To make this point clear, it is necessary to refer briefly to the terms on which private companies are allowed to trade, a subject which will be discussed at greater length in a subsequent chapter. When, for the purposes of their trade, private companies have to interfere with the streets, they acquire the necessary rights either by Private Acts of Parliament, or by Provisional Orders granted under the provisions of General Acts of Parliament, or by the direct consent of the Local Authorities concerned; and such rights, however granted, may be conveniently included under the one general term of "concession." The concessions acquired by water and gas companies in England have hitherto been granted in perpetuity; but, in the case of electric and tramway companies, the concessions always contain provisions under which the Municipalities concerned retain the right to purchase the undertakings at the end of a specified period. This period of years may conveniently be described as the concession period. Under the Electric Lighting Act of 1882, the concession period was only twenty-one years; and any company which commenced operations under that Act in 1885, for

example, would have found itself liable to be compelled to sell all its works and rights in 1906 to the Local Authority of the area supplied. Private enterprise did not, however, flourish under this Act, and the concession period was increased to forty-two years by the Electric Lighting Act of 1888. This change did not meet with the approval of the advocates of Municipal Trade, and when new concessions were being granted, Local Authorities desiring to undertake this branch of trade have since then constantly endeavoured to shorten this concession period by various expedients. But, even if no success should attend these efforts, it is certain that, from the year 1930 onwards, a large number of municipalities will become possessed of the right of purchase of private electrical works on favourable terms, and thus of commencing this branch of municipal trading. Municipal electrical works are certain to increase largely in number in the first half of the twentieth century unless a great change takes place in the popular views on this subject in England.

(20) *Tramways.*—Tramways were first adopted for street traffic in 1852 in the United States, and this method of locomotion has been far more developed in America than elsewhere. The credit for the introduction in 1885 of the use of electricity as a motive power for tramways can also be claimed by a city in that country; and after 1890 the abolition of horse traction for tramways was rapidly effected almost everywhere in the United States. With the exception of a line over Brooklyn Bridge, about a mile in length, and of certain recently constructed underground railways in

Boston and New York, all this has been the work of private enterprise.

(21) As regards progress in electric tramway development, second in the list comes Germany, a country where, though the tracks are nearly always owned by the municipalities, about 80 per cent. of the systems are worked by private companies.[1] In 1900 there were 15,000 miles of electric tramways in operation in the United States and 1793 miles in Germany; whilst in 1899 the mileage in Great Britain was only 210; a contrast which is instructive when it is remembered that Great Britain leads the list, and that Germany comes second, when these countries are ranged in order according to the amount of trade they have placed in municipal hands. By 1902 the mileage of electric tramways in Great Britain had increased to 870.

(22) In the earlier English Private Acts of Parliament, passed in the years 1868 and 1869, under which private companies obtained powers to open tramways, provisions were inserted retaining the right for the municipalities concerned to purchase the undertakings under certain conditions. Thus the principle that Local Authorities might at all events *own* tramways was fully recognised by Parliament at a very early date. The only general Tramway Act was passed in 1870, and still remains in force. Under its provisions, municipalities are allowed to *construct* and *own* tramways, but it includes no permission for Local Authorities to work them. A number of tramways were in consequence constructed by Local Authorities and leased

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[1] "Traction and Transmission," Hon. R. P. Porter, August 1902, p. 224.

out by them to private companies to be worked, a rent being paid into the municipal treasuries. Mere ownership did not, however, long satisfy the aspirations of English municipalities. In the year 1882 the Corporation of Huddersfield obtained a Private Act, which enabled the Board of Trade to permit them to manage their tramway system, if they should find themselves unable to lease it to any private company at an adequate rent; a permission which was soon granted. In 1892 Parliamentary Standing Orders were modified in such a way as to permit Parliamentary Committees to insert similar provisions into any private Tramway Bill; whilst at about the same time it was claimed that certain towns had been granted the power to work tramways by the earlier Private Acts, whether Parliament really intended to do so or not. In these and other ways the barriers against the municipal working of tramways, which had some influence until 1892, have been practically swept away, and need hardly be considered to exist any longer.

(23) Under the Act of 1870, Local Authorities acquired the right to purchase the property of private tramway companies twenty-one years after the granting of a concession on "structural value" terms. Many tramways are now authorised under the Light Railways Act of 1896; but in these cases also the right of purchase is reserved to municipalities, the concession period being, however, not limited to twenty-one years as in the Act of 1870, and the price is as a rule to depend on the market value as a going concern. At the termination of these concession periods, nearly all

these privately constructed tramways will, in all probability, be bought by Local Authorities, who will then lease them out for working to private companies, or manage them themselves. As the latter alternative is sure to be adopted in many cases, this branch of Municipal Trade is likely to increase largely in the near future. In 1902 there were 885 miles of tramways owned by the municipalities of the United Kingdom out of a total of 1483 miles.

(24) Powers have been granted by various Private Acts in recent years to municipalities to run omnibuses; but thus far this permission has been strictly limited to the right to run them on certain specified routes in direct connection with existing municipal tramways. It may well be doubted whether this limitation will continue to be inserted in all future Acts dealing with municipal omnibuses.

(25) *Municipal House-Building.*—Comparatively little had been done in the way of actual building operations by municipalities in the United Kingdom before the year 1890, when the Housing of the Working Classes Act was passed. A Lodging-Houses Act was passed in 1851, which gave considerable powers to municipalities; but it remained almost a dead letter. Artizans' and Labourers' Dwellings Acts were passed in 1868, 1875, 1879, and 1882, dealing with the destruction of unhealthy buildings and other matters; but these led to little reconstruction. The Housing of the Working Classes Act of 1885 was the first measure which turned the attention of public authorities to the demand for additional dwellings for working

men. Some action was, no doubt, taken under these earlier Acts. In 1853 the Corporation of Huddersfield erected a model lodging-house; in 1865, the City of London erected dwellings in connection with an improvement scheme; other important towns carried out improvement schemes, involving reconstruction, under various Private Acts. Glasgow, between 1870 and 1879, erected several model lodging-houses; and in 1888 and subsequent years the same Corporation built a number of tenement houses, the first erected being merely designed as experimental models. It is only, however, since 1890 that municipal building operations have been at all extensively undertaken. In many instances, the blocks owned and let out by Local Authorities contain shops. At the present time five English municipalities have regular Works Departments for the execution of various undertakings, whilst others carry out constructional works without a separate department.[1]

(26) In order to give some indication of the extent to which these recent operations in England may fairly be classed under the head of Municipal Trade, something must be said as to the provisions of this Act of 1890. It is divided into three parts. Part I. deals with unhealthy areas in towns. Part II. deals chiefly with separate unhealthy houses. Under the provisions of these two parts a Local Authority may, and in many cases must, buy up insanitary areas, demolish the buildings on them, let out the cleared land to private contractors under stated conditions as to the rebuilding of dwellings thereon, and

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[1] See *Jour. of the Royal Stats. Soc.*, June 1901, F. J. Sykes.

finally sell to private owners the dwellings thus erected. This may prove to be either a profitable or an unprofitable transaction; but it can hardly be described as a trading operation. If, however, the Local Government Board gives its "express "approval," Local Authorities may themselves undertake the rebuilding of the houses in any way they like; and they may also, on like conditions, permanently retain in their own hands all dwellings erected by themselves or by private contractors on their behalf. Here the trading element is very apparent. In fact these two first parts *force* municipalities to clear unhealthy areas and erect houses thereon, but only *enable* them *by permission* to act themselves as traders in the erection, maintenance, and letting of these dwellings.

(27) Part III. of this Act is intended to enable Local Authorities to build *additional* houses for the working classes on land previously not built on. Under it they are enabled to erect, fit, furnish, let, and manage dwelling and lodging-houses without the consent of the Local Government Board. Here there is no compulsion, and no question of unhealthy areas. Here, therefore, we have Municipal Trade pure and simple. A large part of the expenditure under Parts I. and II. of this Act must always be for the clearing of unhealthy areas and the destruction of unhealthy buildings. Bearing this in mind, the following figures, stated in round numbers, are interesting as showing, it may be hoped, that the worst slums have been cleared; and also, whether a matter for congratulation or not, that the trend of public

opinion is setting strongly in the direction of Municipal Trade.

LOANS SANCTION BY THE LOCAL GOVERNMENT BOARD.

	Under Parts I. and II.	Under Part III.
1892–95	£425,000	£46,000
1896–99	223,000	411,000

(28) Outside the United Kingdom comparatively little has been attempted in the way of municipal house-building. Municipal lodging-houses, though apparently not on any extensive scale, exist in Paris and Berlin.

(29) *Pawnshops and Insurance.* — Although Municipal Trade has, on the whole, been more developed in England than elsewhere, yet there are a few enterprises which are more frequently managed by public officials abroad than with us. Public pawnshops are a municipal institution in more than forty of the chief provincial towns of France, and are commonly found in Germany and Belgium. Municipal savings banks are even more numerous in these countries. Municipal fire insurance is also a German institution, and has recently been adopted in Canada and Australia.[1]

(30) *Miscellaneous Municipal Enterprises.*—The foregoing are the principal enterprises, undertaken by municipalities, which could be classed as trades. English Local Authorities may also provide and maintain cemeteries and allotments of garden land; and, although both may be a source of profit, neither would generally be regarded as commercial undertakings. Various other enterprises of a more or less commercial character are managed by a few

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[1] "Lectures on the Principles of Local Government," Gomme, p. 167.

municipalities, the necessary powers having, in some instances, been acquired in somewhat abnormal ways. The residuum from dust destructors, with other materials added, is occasionally made by municipalities into mortar or paving stones, which are sold to the public; the object being to lessen the cost of getting rid of rubbish.[1] The Corporation of Glasgow possesses stone quarries, and builds tram cars.[2] Power has been granted to certain large municipalities to issue promissory notes, the object being to enable them to raise comparatively small sums in this way. This, however, should be described as a financial expedient rather than a trading operation.[3] Milk is distributed by one or two Local Authorities, the intention being to increase the use of sterilised milk and thus lessen disease.[4] Certain municipalities are allowed to spend definite sums in providing free bands in parks, which is certainly not a commercial venture. But when powers are taken to erect buildings for entertainments, to charge entrance money, and out of the profits to pay for bands, the trading element becomes apparent.[5] Brighton, Doncaster, and Pontefract own racecourses; Brighton and Southborough own theatres; and Bournemouth owns golf links.[6] The power to manufacture electrical fittings has been obtained by Sheffield; though the tendency of Parliament is to refuse to grant such rights.[7] The most important municipal enterprise which has been commenced in recent years is the establishment of telephone services. Glasgow and Tunbridge Wells established telephone systems in 1901, and five other Corporations had by 1900 obtained the necessary licences from the Post Office. Tunbridge Wells has, however, recently abandoned this undertaking.

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[1] M.T.R., Qs. 3180 and 4168.
[2] *Times*, 30th September 1902.
[3] M.T.R., Qs. 1058 and 3964.
[4] M.T.R., Q. 3203.
[5] *Ibid.*, Qs. 353, 647, 1015, and 1939.
[6] *Ibid.*, Q. 355.
[7] *Ibid.*, Qs. 434 and 2991.

(31) *Recent Demands.*—Certain demands recently made by municipalities, even though they have not been granted, are worth noting as indicating the growth of the sentiment in favour of municipal enterprise. The following powers have been included in bills or draft Provisional Orders, submitted either to Parliament or to the Government departments concerned:—To buy land and make a cycle track thereon; to construct dynamo electric machines, other electric apparatus, and steam-engines; to provide apparatus for games, and to charge for the use thereof; to run omnibuses in connection with tramways; to establish a river steamboat service; to provide bathing-machines; to advertise the facilities and advantages of the district for trading and commercial purposes; to supply sea-water; to establish Fire and Accident Insurance Funds; to construct bazaars, aquaria, concert-rooms, kiosks, saloons, shops, winter-gardens, etc.; to erect, maintain, furnish, and equip common lodging-houses; to manufacture electric fittings; to acquire patent rights. These, and the management of public-houses, are some of the enterprises necessarily involving some risk to the ratepayers, which Local Authorities have recently wished to undertake.[1]

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[1] M.T.R., 1900, pp. 462, 511.

(32) *Municipal Revenues.*—In England the incomes of Local Authorities are derived partly from rates and partly from other sources. The way in which the rates have increased during the nineteenth century may be seen from the following figures, which give in round numbers the sums received in England and Wales during the years named from this source of revenue:—

1803	£5,348,000
1827	9,544,000
1851	8,916,000
1868	16,800,000
1898	37,605,000

The total aggregate revenue, including these rates, received by these Local Authorities in 1898, the last year given in this list, was £69,144,000; the balance being made up by Treasury subventions, fines, income from invested property, sales of property, and profits from municipal trading enterprises, the latter sum being returned at about £11,750,000. Thus the increase in local taxation has been extremely rapid since the middle of the century, far more rapid than the increase in the population. But the facts as above stated merely prove that Local Authorities have become far more active in recent years, and have shown themselves more and more ready to undertake new responsibilities. Taken by itself, the foregoing statement gives no indication whatever as to whether rates would *on the average* have been higher or lower had no municipal trading enterprises been undertaken.

(33) The financial effect of these remunerative undertakings becomes, however, very apparent

when we study the statistics of municipal indebtedness. The amount of the debts incurred by English and Welsh Local Authorities at the following dates was approximately as follows:—

1867-68	£60,000,000
1874-75	93,000,000
1899-1900	294,000,000

Between the years 1874-75 and 1898-99, whilst the *national* debt was *reduced* by £141,000,000 the local debt in *England and Wales only* was *increased* by £185,000,000;[1] and, "while the total "increase in the rateable value of the country in "the last twenty-five years has been less than 30 "per cent., its local debt has trebled." Until we can define exactly what a municipal trade is, we cannot say how much of this increase of indebtedness has been due to municipal trading. But, without resorting to definitions, it may be stated that the total amount of the outstanding loans of the same Local Authorities for markets, slaughter-houses, cemeteries, harbours, piers, quays, water-works, gas-works, electric lighting, and tramways was as follows:—

1885	£81,234,000
1898	116,006,000

This is an increase of 42 per cent. in 13 years.[2] There is, of course, an increase in the assets belonging to Local Authorities corresponding to this increase in the debts incurred by them for these remunerative undertakings; for the money raised has been mainly expended in the purchase of land and in the erection of valuable plant. It has also to be noted that all these debts are being paid off year by year by sinking funds. But it can hardly be denied that the increase of local indebtedness has not only been startlingly rapid, but that it has been progressing at an accelerating ratio.

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[1] *Jour. of the Royal Stats. Soc.*, Sept. 1900. Sir H. H. Fowler, pp. 383-385; Report on Select Committee on Repayment of Loans, 1902, p. 262; *Times*, 28th August 1902.

[2] M.T.R., Qs. 952, 953.

(34) With regard to the financial condition of municipalities in other countries, the following table is interesting. It confirms the view already expressed that in no important country has municipal enterprise been so progressive as it has been in England.[1]

STATISTICS OF MUNICIPAL DEBTS.

Country.	Year	Debt *per Capita.*
England and Wales	1898	£8 8 0
United States	1890	2 9 0
France	1899	3 14 0
Italy	1889	1 9 0
Belgium	1880	4 4 0

"Germany probably holds about the same "relative position as the United States."

(35) To summarise the foregoing sketch, we see that markets, baths, harbours, and waterworks have been managed for many years by local bodies. Municipal gas-works existed, though not in great numbers, before the year 1875. Ten years later came municipal electric lighting works and municipal tramways; and last in the list of important enterprises came municipal house-building, which has been undertaken by several municipalities on a considerable scale during the

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[1] "Municipal Administration," Fairlie, p. 331.

last fifteen years or so. Contemporaneously with this increase during the last half of the nineteenth century in the *number of different kinds* of industries commonly municipalised, the *actual number of municipal works* of all the different kinds continually increased also. This progressive municipal spirit has also shown itself recently in the desire expressed by many Local Authorities to undertake various competitive industries, a desire which has not generally met with a favourable reception in Parliament. Thus not only is this municipal movement in reality a very recent one, but we can, moreover, learn little from the experience of other countries; for nowhere else has Municipal Trade been so extensively developed as in England.

(36) A trade may perhaps be described as an enterprise undertaken for the sake of making a profit, and necessarily involving some risk of loss to the proprietors. As to the undertakings commonly managed by municipalities, which have been discussed in the chronological order of their first adoption as municipal enterprises, it will be observed that, in those more recently taken in hand, the characteristics of a trade are more clearly discernible. At the beginning of the nineteenth century it was in fact actually illegal for a Corporation to make a profit as a trader; whereas at the present time municipalities are becoming more and more desirous either of making a profit in this way, or of managing industrial concerns with some other public object in view. They are showing less and less unwillingness to face the risks involved in trading enterprises, and the rapid increase of local indebtedness appears

thus far to have placed no check on their aspirations. Unless it can be demonstrated that this is a movement in the right direction, these facts must afford grounds for grave apprehension. The *laissez-faire* theory of Government received a severe blow when the regulation of railways and factories by the State was undertaken and was found to have beneficial effects; and less and less attention has been paid in recent years to the arguments in its favour. It is high time to consider the whole question anew, and to decide whether our towns should be encouraged to press further forward in their present path of progress, or whether the pendulum has not already swung somewhat too far in this reaction against individualism. Such an enquiry would open out a wide field for debate, and all that will here be attempted will be to ascertain when it would be wise and when it would not be wise for municipalities to manage enterprises with any affinity to trades, whatever might be their objects in so doing.

II

MUNICIPAL TRADE AND SOCIALISM

(1) Socialism and the desire for Municipal Trade are undoubtedly products of the same great political and social forces; the result, that is, of the increased power of the mass of the people, and of the great extension of the facilities for intercommunication of all kinds. Socialistic politicians are always keen advocates of Municipal Trade, and are naturally prepared to go to any length in this direction.[1] Some hope, as regards all trades, to be able to organise them "on a public basis, one branch after another, "transforming them into collective capital and "socialised labour."[2] Others desire municipal enterprise more on account of its indirect effects. By paying municipal workmen better than their fellows in private employment, they hope to spread the belief—a belief they themselves probably honestly hold—that better conditions necessarily accompany State employment. It being further their intention to obtain, if possible, the control of the administration of our great cities, they not unreasonably argue that the greater the number of voters in the pay of the captured municipalities, the greater will be their chances of success in any struggle in favour

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[1] For examples of the lengths to which some towns are prepared to go, see *Journal des Economistes*, 15 *Juillet* 1901, "Le Municipalism," H. Bouet.

[2] "Quintessence of Socialism," A. E. F. Schäffle, 1889, p. 48.

of a more advanced socialistic system. Thus the advocates of Municipal Trade undoubtedly find themselves to this extent in alliance with socialistic politicians of an extreme type.

(2) This volume is not, however, addressed to socialists. If an attempt were to be made to prove to the extremists that their views are erroneous, it would be necessary to discuss the whole subject of Socialism from its foundations. Socialists demand reforms on the ground of right rather than on the ground of expediency; and to prove that the municipalisation of any particular industry, taken as a measure by itself, would be inexpedient, would not shake their faith in Socialism as a whole. The two movements, moreover, differ widely enough to make it possible to discuss the one without considering the other. Advanced socialists deny the right of individuals to hold private property of any kind, and the impossibility of effecting the reforms they desire by constitutional means is by many of them hardly denied. On the other hand, the advocates of Municipal Trade may be strong upholders of the right of holding private property; they may be sound constitutionalists; and they may only desire to see a trade municipalised owing to their conviction that this step would be beneficial to the community at large. It is, I believe, to citizens holding these opinions that the municipal movement in England at present owes its chief strength. No doubt, the Social Democratic Federation, the Independent Labour Party, and the Fabian Society are engaged in an active propaganda of Municipal Trade as a stepping stone to more extreme measures. These

associations have certainly acquired great influence in some localities, and it would be very unwise to attempt to foretell the future of Socialism in England.[1] But for the immediate future it appears to me that the decision on all questions affecting Municipal Trade in the great majority of localities in England still rests with men of more moderate opinions. In any case, it is to citizens who are willing to regard municipal questions without fixed ideas on socialistic rights that the arguments here used are addressed.

(3) It is, however, necessary to examine one question connected with this subject. Probably the sentiment which tells most strongly in favour of Municipal Trade in the minds of English working men is the belief that municipal employees receive better treatment than similar employees in private trade. It is, I believe, easy to prove that municipal workmen do, on the average, receive a higher rate of pay for a given amount of work; and the question here to be considered is whether this fact does or does not afford a legitimate reason in favour of Municipal Trade.[2]

(4) Municipalities undertaking trading operations must get their work done either by the direct employment of labour, or by employing contractors. Taking the latter alternative first, it is to be noted that many municipalities, the London County Council included, always insert a "fair wages" clause in their contracts, thus obliging contractors to undertake to pay their workmen either the wages "generally accepted as fair in the trade" or the

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[1] Socialism in West Ham, for example. See *Times*, 16th September 1902.

[2] See chap. vi., par. 20.

"trade union rate of wages." This is the only way in which a workman, paid by a private contractor, will be affected by the fact that the work is being done for a municipality; and the beneficial result to him is held to be one of the advantages of the work being in the hands of a Municipality, or one of the merits of Municipal Trade. It can hardly be doubted that the penalties necessary to enforce the payment of "fair wages," and the necessary right of inspection of contractors books, has a tendency to make contractors raise their tenders, and to prevent some firms from tendering; and this in turn must inevitably raise the average price paid for the work done. But there may be some doubt as to how much of this increase of cost finds its way into the workmen's pockets. In cases where this clause has no effect at all on wages, it is obvious that it cannot be advantageous even to the workman. But undoubtedly in some cases, few or many, it has an effect; or, in other words, contractors are sometimes induced to pay a higher rate of wages than they would pay if no such clause were inserted. The question then is whether it is, on the whole, advantageous that workmen should have their wages thus artificially raised when the work they are employed on is to be paid for by the public. Is it possible to suggest any argument with reference to the insertion of fair wages clauses which would not apply with equal force to all contracts, whoever might be the paymaster for the work done? Why should a workman who is building a tramway car for a contractor receive a higher rate of wages because the car he is building will eventually be run on a municipal tramway and not on a tramway owned by a private company? If an artificial increase of wages is right in the one case, it is right in the other. The true question at issue has no relation to the advantages or disadvantages of Municipal Trade; for that which ought to be decided is whether it would be wise for the State to insist on fair wages clauses being inserted in all contracts. My own view most decidedly is that it would not be wise, because amongst other results it would give Trades Unions an undesirable influence over all traders, public and private. If, however, this view is erroneous, and fair wages clauses ought to be inserted in contracts for public works, the reform to be aimed at is the enactment by Parliament that fair wages clauses should be inserted in all contracts; an enactment which, if passed, would give to workmen on private undertakings the same advantages as men working under contractors for public bodies, and would thus destroy this alleged advantage of municipal over private trade.

(5) With regard to the direct employment of labour by municipalities, two distinct advantages arising from it are claimed as arguments in favour of Municipal Trade. In the first place, it is claimed that workmen get better terms, and work under better conditions, when employed directly on municipal works than they would do if they were in private employment; and that a large class is thus benefited by Municipal Trade. Municipal workmen when directly employed on public works do, I have no doubt, get better pay on the average for the amount of work done than workmen in private employment, even when the conditions are exactly similar;

that is, for example, comparing the employees in municipal gas-works with similar employees in private gas-works. The lot of the directly employed municipal workman is, moreover, probably often in other respects preferable to that of the workman employed at the same work by a contractor; because, taking sewage-works as an example, when the work is being done by a municipality direct, the municipal foreman of works will be less likely than the contractor to "sweat" his men, or to get out of them an unduly heavy day's work for their day's wage. The second advantage claimed for Municipal Trade is that workmen in private employment will be beneficially affected by the good example which municipalities, by becoming managers of industrial concerns, will be enabled to set to private employers in respect of the hours of labour, the rates of wages, and the conditions of employment. Thus Municipal Trade, so it is urged, will result in benefits being experienced by all workmen employed directly by Local Authorities, and it will also indirectly benefit other workmen on account of the good example set to private employers of labour.

(6) With regard to both these claims, it is necessary to draw a distinction between reforms which will affect the price of the commodity produced, or the cost of the work done, and reforms which will have no such effect. Taking the latter alternative first, the opportunities for municipalities, when employing men directly, either to take precautions or to adopt regulations unusual in private trade which would beneficially affect their employees without involving material expenditure are, I suspect,

rarely to be met with. In times gone by many things might have been done voluntarily by employers, such, for example, as the use of safety-lamps in mines, which would at little or no cost have lessened the danger attendant on certain industries; and cases probably still exists where inexpensive beneficial action is possible. But with regard to all matters connected with health, morals, and safety, and as regards many matters connected with mere convenience, if the beneficial effect of any reform can be clearly demonstrated, and if it does not involve any capital outlay or increased cost of production, why should not Parliament enforce its adoption by all employers, public or private? A reform can be introduced by legislation with far more certainty than by the mere voluntary action or example of separate municipalities. If all the reforms which ought in any case to be compulsorily enforced on all employers are left out of consideration, there remains, in fact, but a very limited field in which it is possible for municipalities to benefit their employees, or to set a good example to other employers, without adding to the cost of the work done; and, even if, as is probable, Local Authorities are more ready than private employers to concern themselves with the welfare of their employees, but a very feeble argument can be founded on these considerations in favour of Municipal Trade.

(7) The foregoing argument is not, however, applicable to the many ways in which a workman can be benefited by methods involving an increased expenditure on the part of his paymaster; such as higher wages, shorter hours, lighter work, or better

workshops. Some advocates of Municipal Trade claim the better treatment of municipal employees as a merit of the system they are upholding, whilst at the same time they attempt to prove that municipal enterprise is no more costly than private trade. But, as regards the matters now under consideration, does it not follow that, if one of these contentions is true, the other must be erroneous? If municipalities pay their men no better than private employers, how can municipalities set a good example to private employers in this respect? On the other hand, if the pay of the municipal workman is higher than the pay of the private workman, must not the cost of production be higher in municipal enterprise than in private enterprise? Attempts have no doubt been made in one or two ways to escape from the horns of this dilemma; but, as we shall see, they all fail more or less completely.

(8) In the first place, as regards the direct employment of labour by a municipality in place of getting the work done by private contract, it is claimed that the profits of the contractor are thus saved, and that, consequently, no increase of total cost need be involved by the payment to the municipal employees of a higher rate of wages than that received by the workmen employed by the contractor. It can, however, hardly be doubted that the contractor, being personally interested, is, as a rule, more successful than the municipal foreman of works in making workmen do a good day's work, and that, for this and for other reasons which will be discussed in the chapter on "Management," the cost of the work is as a rule considerably increased

by the direct employment of labour, even if no increase be made in the rate of wages. But even in the cases where the contractors' profits could be saved with advantage, ought they to be, as it were, distributed amongst the municipal employees? In such works as underground sewers, where inspection is difficult, and where much must be left to the good faith of the employees, it is suggested that the employment of a contractor leads to bad work, and that the work would be better done by the direct employment of workmen receiving *higher pay*. Where-ever it can be proved that this is the case, the system of direct employment by the municipality should, as far as this consideration is concerned, certainly be adopted. But, if so adopted, it would be adopted because it produced better work, and *not* because it resulted in a certain number of workmen receiving a higher rate of pay. If, on the other hand, the quality of the work would not be proportionately increased by an increase of wages, and if other things remained the same, it is obvious that the direct employment of labour at the ordinary rate of wages would result in a reduction in the cost of production if the contractor's profits can thus be saved. Taking the case of the construction of sewers by direct employment again as an example, the question at issue is whether the fund raised should be only sufficient to enable the workmen to be paid at the market rate of wages; or whether the same fund should be raised as would be necessary if a contractor had to be paid, the workmen's wages being, at the same time, raised above the market level, and the cost of construction increased up to the contract level. Whether it is right thus to raise the wage of the municipal employee has not yet been discussed; but it certainly cannot be right to do so *only* in those cases where the employment of a contractor would add to the cost. An attempt is here being made, in fact, to connect two considerations which should be kept quite separate. The Socialist may, no doubt, hold that it would be economical to place all production in the hands of the direct employees of public bodies, and he may advocate Municipal Trade as a step in the right direction. But he cannot believe that the credit of the introduction of Municipal Trade is in any way due to the existing municipal workmen, or that there is any reason why they alone should benefit by the economies he believes to have been already effected. Even the convinced Socialist can only defend the higher pay of municipal workmen on the ground that an excellent object-lesson is thus given to all who are unconvinced. Thus the abolition of the contractor is very seldom economical; and, when it is so, it affords no real reason for paying municipal workmen above the private rate of wages.

(9) Much the same answer may be made to the claim that municipalities can borrow money at a lower rate of interest than private traders, and that it is consequently possible for them to pay a higher rate of wages and yet do the work at the same cost. The financial questions connected with Municipal Trade will be examined in a subsequent chapter, when it will be seen, in the first place, that the main reason why municipalities can raise money more cheaply than private traders is because the conditions attached to the loans are different in the two cases, and, in the second place, that the

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economy claimed on this ground is very problematical. But, whether it is problematical or not, workmen's wages should not depend on such extraneous circumstances as the conditions attached to municipal loans. Even if it be possible to reduce the cost of production by raising money in a particular manner, this in itself affords no reason for increasing the pay of the municipal employees. The one circumstance has nothing whatever to do with the other. If the pay is increased, must it not make the work more expensive than if it were not so increased? And, if this is the case, can it be right thus to increase the pay? These are the questions which have to be considered.

(10) It is, in the second place, denied that work would become more costly if wages were increased, it being asserted that the better the workman is treated, the more efficient as an agent of production does he become. Here there are two questions involved. It may be urged either that it is more economical to employ a smaller number of more highly paid men, or that it is more economical to pay all labour at a higher rate. The first of these alternatives, or the employment of fewer but more highly skilled men, would have the *immediate* effect of reducing the ordinary market rate of wages by adding to the number of the unemployed; and even if in the end the net result would be beneficial to the community at large, a reduction in the numbers employed would in no circumstances be claimed by Socialists as being advantageous. As to increasing the wages of all labour, it is absurd to suppose that such an increase would always be

accompanied by a proportionate increase of productive power, whatever might be the level of existing wages. The effect of a change in the rate of payment must vary with every condition connected with the employment. It is difficult to foretell the effect at any particular time, and in any particular trade, of an increase in the rate of wages; and it is even more difficult to foretell the effect on the cost of production of any general rise in wages. All we can do with regard to such questions is to rely on the opinions of those most capable of judging. If it were true that a general rise of wages at the present time would increase production, it would follow that private manufacturers would be benefited by making such an increase; for by so doing they would increase their profits. There are many strong inducements to make an employer treat his employees well. His natural good feelings, his desire to obtain the best hands in the market, and his dread of labour troubles, all make him wish to do so. It is certain, therefore, that employers are, rightly or wrongly, convinced that an increase in productive power in proportion to an increase in wages would not be produced by thus bettering the condition of their workmen. And, in considering whether the payment of municipal employees at a higher rate of wages than that ruling in the market would or would not add to the cost of production, we must place the general opinion of private employers in the scales on one side, and, on the other, the opinions of certain social reformers advocating municipal enterprise with various objects, few of whom have had much experience in industrial matters. It may, in fact, be confidently assumed that the municipal workman cannot be treated in the matter of wages better than his fellow-workmen in private employment without, to a certain extent, adding gratuitously to the cost of municipal trading.

(11) Thus none of the foregoing methods of escape from this dilemma are open to the advocates of municipal enterprise. It is a mere truism to state that either they must admit that, as compared with the private labourer, the municipal labourer does receive more favourable treatment as regards wages, hours of labour, or other matters involving expenditure, or they must abandon all the arguments which are founded on such better treatment. Those who are honestly advocating Municipal Trade because of the superior treatment of municipal workmen must adopt the former alternative, and ought to endeavour to prove that municipal labour is, on the average, more highly paid than private labour; an attempt in which they will, with little doubt, succeed. The question is whether this can be claimed as one of the merits of Municipal Trade notwithstanding that, as we have seen, the cost of production must in this manner be increased above what it would be if the market conditions with regard to labour were adhered to.

(12) Two advantages, as we have seen, have been claimed as arising from high wages in municipal trades; the actual advantage to the workmen employed directly or indirectly by municipalities, and the indirect advantage to workmen on private works on account of the example set to their employers. As to the latter contention, how much good can public bodies do by setting a good

example? Obviously, whatever else may be said, an example can only be actually useful in proportion to the extent to which it is followed. In certain minor matters affecting the comfort of workmen, the action of Local Authorities might occasionally furnish a useful lever to private employees to enable them to induce their employers to adopt comparatively inexpensive reforms, and on this ground it may perhaps be possible to justify some avoidable expenditure which is calculated to benefit men in public employment. But in important matters materially affecting expenditure, such as wages or hours of labour, the example of municipalities produces no effect whatever. It is impossible to believe that, in the fierce struggle between competing producers, wages are regulated on other than purely economic principles. Whilst heartily agreeing that a bad example should not be set, we may, therefore, conclude that any argument in favour of Municipal Trade, which is based on the benefits to the workmen in private employment arising from the example which can be set to their employers by municipalities, fails almost wholly because that example in reality produces no appreciable effect.

(13) As to the claim made in favour of Municipal Trade on the ground of the actual benefits felt both by municipal workmen and by contract workmen employed on municipal works under fair wages clauses, it is necessary to examine the effect produced by their superior treatment somewhat more closely. Taking first the case of the construction by municipalities of sewers or other *unremunerative works*, it has been seen that,

if the average market conditions of labour are not adhered to, the cost of the works will thus be increased, and it follows as an obvious consequence that the revenue raised to pay for such works must also be increased to the same extent. The result in such cases will be exactly the same as if the market conditions had been adhered to, as if a special rate had been raised, and as if the proceeds of that rate had been distributed amongst the municipal workmen, thus making their lot preferable to the lot of men doing similar work under private employers. As regards municipal *remunerative undertakings*, the effect of paying the workmen wages above the average market level will be either the same as that above described in the case of unremunerative works—that is, the imposition of an additional burden on the ratepayer—or else the price of the gas or the other commodities produced must be increased in order to obtain the increased funds required to pay the additional wages. In this latter case, the result is exactly the same as if a tax were levied on the consumer of gas, for example, and as if the proceeds of that tax were distributed amongst workers in the municipal gas-works. Thus to give exceptionally good terms to the employees on municipal works is equivalent to paying them the ordinary market remuneration and giving them in addition special grants out of the proceeds of taxation raised either from the ratepayers at large or from the consumers of the commodities made at the municipal works.

(14) The foregoing considerations will, in the opinion of most people, be sufficient to condemn the practice of paying municipal workmen more

highly than similar workmen working under private employers. Working men all pay rates, either directly, or indirectly through their rents. Working men in enormous numbers travel on municipal tramways, and consume gas, water, and other products of Municipal Trade. However light the burden may be, what possible excuse can there be for taxing workmen either as ratepayers or consumers, and thus reducing their available income to a certain level, in order to raise above that same level the available income of a comparatively small number of workmen who are living in the same locality and doing the same class of work? Why should the private workman be damaged in the slightest degree in order to benefit the municipal workman? The wish to see the lot of the municipal workman improved, which all of us must feel, affords no justification whatever for such a proceeding.

(15) There are, moreover, other and somewhat less obvious reasons why municipal workmen should not be allowed to become a specially privileged class. One of the results of exceptionally favourable treatment must be to make municipal employees abnormally anxious to retain their positions, and, as will be seen in a subsequent chapter, in this manner to increase the danger of the spread of corruption. Then, again, the raising of municipal workmen's wages above the market level is dangerous, because, being based on no principle whatever, there is no finality about it. If it be admitted that they should be paid 5 per cent. more than private workmen, why should we deny them 10 per cent. or even 50 per cent. higher wages? No one

can blame any employees for constantly making legitimate efforts to get their pay increased; efforts which will be peculiarly difficult to resist in the case of municipal workmen if once the principle of paying them the normal rate of wages is abandoned. Moreover, the constant attempt to obtain an increase of wages on grounds wholly unconnected with the value of the work done has a very demoralising effect. Lastly, if the municipal workman is to receive what is equivalent to a bonus out of funds raised by taxation, why should not all other workmen receive it also? Why give it only to this quite arbitrarily selected class? It is perhaps hardly necessary nowadays to argue against such a method of increasing all wages. It would be to re-introduce the "rate in aid of wages" which has "long been "regarded by economists as one of the worst abuses "of the earlier years of" the nineteenth century.[1] To pay municipal workmen on any other scale than that ruling in the private market is, therefore, both unjust and dangerous.

(16) No one now openly attempts to justify the employment of municipal workmen at high rates of wages or for short hours on charitable grounds, or because work might thus be found for the unemployed; for it is admitted that public work and charitable organisations should, as a rule, be kept separate. Of course, with shorter hours, more men would be employed; but favouring the municipal workman in this way is as objectionable as giving him wages above the market rate; and if he is treated no better and no worse than the private workman, there is no reason why more men should

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[1] "Democracy and Liberty," Lecky, ii. p. 397.

be employed in a Municipal Trade than would have been employed if the business had been left in private hands. If any charitable plea were admitted with regard to municipal employment, it would follow that municipal workmen ought to be selected on some partially charitable principle; that is, not wholly with regard to their fitness for their work. To select labourers because they could not find work elsewhere would lead to great inefficiency in all municipal works, and to positively dangerous results in the case of sewage works. It has, no doubt, been suggested that no community should be taxed for the benefit of aliens to that community, and that, consequently, a long residential qualification should be insisted on before selecting a citizen for employment on public works. Any such system as is here hinted at would tend to combine the evils arising from inefficient work, old age pensions, and favouritism, and need not, therefore, be discussed.

(17) Thus any excess of cost of municipal labour over private labour cannot be justified on any grounds; and if, as I believe, it can be proved that the labour bill paid by municipalities is, on the average, higher than that paid by private proprietors, we here find an argument against Municipal Trade, and not one in its favour. The plea for municipal enterprise because of the better treatment of public employees, and the socialistic demand for collective ownership on the grounds of abstract right, if admitted, would tell in favour of the municipalisation of all industry. These pleas must be rejected. And, as all the arguments which remain to be considered tell with varying force in different

circumstances, it follows that each proposal for the municipalisation of an industry must be examined separately on its merits, and that there will be nothing illogical in coming to the conclusion that some trades are best left in private hands, whilst others had better be transferred to public management.

III

MONOPOLIES

(1) Using the word "monopoly" somewhat loosely in order to denote a business in which competition is improbable, difficult, or impracticable, the increase in recent years in the number of such monopolies has, without doubt, tended to increase the desire felt for Municipal Trade. Various causes have contributed to this limitation of competition, and to this creation of monopolies, the most important being those connected with the "law of increasing "return," the right to interfere with streets, the advantages of a large *clientèle*, and the increase in the value of property in the centre of large cities.

(2) In most industries, and especially in those in which machinery plays an important part, capital expenditure does not increase in proportion to the output, and the cost of production, therefore, decreases as the amount produced increases. Consequently the more business the manufacturer does, either the more profitable does his venture become, or the more cheaply can he sell the goods he produces. This is the law of increasing return briefly stated, a law in consequence of which it is generally difficult for a new competitor to enter any field of commerce;

because, if he begins by selling at the same price as his old established rival, he is, as a rule, bound to suffer a loss until he has established an almost equally large connection. This law has, therefore, always a tendency to create monopolies. This tendency is, however, peculiarly strong in those trades in which the cheapest method of transporting the goods[1] produced or supplied—such as electricity, gas, or water—is by means of some special connection, such as wires or pipes. The circumstance which specially tends to produce the monopoly in these cases is that the pipes or wires are only available as means of transport from *one* manufactory to the consumer, and not, like roads or railways, from several competing manufactories to the same consumer. The expense which each undertaker is put to in making these connections produces in itself a tendency to confine the undertakings to a limited area, and thus to check competition between different undertakers. More important than this, however, is the fact that when a gas company, for example, has made the necessary connections with the *majority* of the houses in a street, any would-be competitor will perceive that he has practically only the *chance* of supplying a *minority* of the houses in that street, and that, in order to secure that chance, he would be put to almost as great a cost in making the main connections as that already incurred by the existing company. Any new competing company must, in these circumstances, enter the field heavily handicapped from the start, and effective competition is, therefore, very frequently impossible. In consequence of this absence of competition, the consumer of gas has, as a rule, no option as to changing from one company to another; and, in this and similar ways, gas-works and several other industries in towns and thickly-populated districts always become monopolies. Since the chief cause lies in the mechanical means of manufacture or transport of the goods produced or supplied, this tendency for competition to become limited has increased with the growth of science, and is likely to go on increasing in future.

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[1] The word "goods" is here used with the wide meaning adopted by Marshall and other economists; that is, as meaning "all desirable things, or things that satisfy human wants." "Principles of Economics," Marshall, 3rd edition, p. 124.

(3) When two gas companies, for example, have received permission to supply houses in the same area, there will at first, no doubt, be keen competition *in construction* between them; but this competition is apt to take the form of a scramble to obtain a connection with the whole of the houses in particular districts and streets. When this scramble is over, and when the area is thus more or less completely partitioned out between the rivals, they will make little effort to encroach on each other's preserves, and effective competition *in production* will not be established. It will soon become obvious to the companies that it will pay them best to avoid all possibility of competition, either by amalgamating, or by entering into binding contracts rigidly dividing the available area between them. The joint profits of two companies having powers over the same area will be far greater if each lays mains in half the new streets as they are built than if both lay mains in all the streets. Thus in all districts, even in

those in which competition is established in the first instance, the law of increasing return tends to make rival firms amalgamate with each other, thus entirely putting an end to all competition in production.

(4) The right to interfere with the streets, which many companies must acquire in order to carry on their business, is, moreover, in itself a cause tending to produce monopolies, quite independently of the interests of these companies themselves. Where there is any competition in the same street, and where two companies have been granted the right to break up that street, the Local Authorities and the public soon find out that the inconvenience is greater than it would have been if only one such company had had that right. If many companies possess these rights, the nuisance becomes intolerable. At one time as many as six gas companies had laid their mains in Oxford Street, thus causing most serious inconvenience, an inconvenience which was only obviated by the metropolitan area being divided out amongst such of the rival firms as had not previously amalgamated. To take another somewhat similar instance, as many as thirty-nine tramway companies were deliberately given charter-rights between 1857 and 1874 in Philadelphia with the view of creating competition; but from the outset effective competition was not secured. Amalgamation commenced in 1864, and by 1896 one company was operating nineteen-twentieths of the total mileage of that city.[1] In fact these street rights often tend to make Local

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[1] "Street Railway System of Philadelphia," F. W. Spiers (Johns Hopkins University Series), p. 28.

Authorities favour the amalgamation of competing companies, and in the end all parties seem to conspire together in such cases to prevent effective competition, and to rid these monopolists of their rivals.

(5) Of the above-mentioned four causes tending to produce monopolies, the third was due to the fact that in some cases it is a positive advantage to the new "consumer" to deal with the company which has the largest *clientèle*. If, for example, a telephone company once becomes firmly established in any locality, no one would dream, other things being equal, of seeking a connection with a recently established rival company; for, if the two concerns were really competing, the old company would certainly not give any facilities to the subscribers to the rival firm to enable them to communicate with their own subscribers. In such cases, therefore, competitors are not likely to appear on the scene. Again, old established tramway companies have great advantages as compared with any isolated rival in extending their lines into contiguous districts; and they are therefore proportionately safeguarded from competition. Thus in telephones, tramways, and many other businesses, much will be gained by both parties by amalgamation, because the larger the field covered the less will be the chance of competition. The advantages to private proprietors arising from the establishment of an extensive connection constitute a potent cause tending to produce monopolies.

(6) Lastly, taking again the case of gas companies, such undertakings are usually established in growing neighbourhoods, where property is

increasing in value with every increase in the population. The mere fact of the difficulty of acquiring land on which to build rival works, or rather the price which would have to be paid for it, adds materially in such cases to the risk involved in starting a competing concern; and in this way the position held by the owners of many monopolies is additionally strengthened.

(7) Thus many industries are certain to become monopolies in the sense in which the word is here used; that is to say that the fares or prices charged by the proprietors of such industries will be more or less unaffected by competition. Where this is the case, prices, qualities, and other matters must be to a certain extent controlled by the State; and such, as a matter of fact, is the practice in this country. If, for example, the right to run a tramway through a town were given to a company without any stipulation being made as to the fares which might be charged, that company might be able to make very large profits, and the transaction would amount to parting with valuable public rights for no adequate consideration. Even if this objection to granting unrestricted concessions could be removed by making proprietors pay suitable rents for the privileges granted, as possibly it might be, there would remain other reasons why the fares and prices charged by monopolists would be, and should be, regulated by the State. Citizens not only desire low prices, but they also want the greatest certainty attainable as to the prices which will be charged in future. In the case of unrestricted monopolies, there can be no such certainty; for the proprietors will often be able to raise prices quite independently of the cost of

production. In the case of water supply, for example, as long as no competitor appeared on the field, water companies, if unrestricted, could raise their charges by almost the amount of any increase in the value of the property of the water consumers; because each consumer would, in such cases, prefer to pay more for his water supply rather than be forced to leave his house. Uncertainty as to the future may be not only distasteful but positively injurious to the community; for it may check the growth of industries and the development of new districts. Then again the granting of unrestricted concessions may confer on the proprietors very great powers over consumers, especially if the goods supplied are such as would be described as necessaries; and such powers both are, and are felt to be, very objectionable. In the United States, where private trade is less regulated than it is in England, the evil effects of unregulated monopolies are more clearly seen; and we are told that in that country "discrimination and extortion" are two of the main causes which have led to a demand for a change from the existing condition of things.[1] For these and other reasons, we may be certain that trades which tend to become monopolies will be always more or less regulated by the State; and the only practical question is as to how this regulation should be effected.

(8) The State can refuse to grant to any company the right to break up the streets, etc., unless that company will agree to abide by any conditions which the State may prescribe; and in this manner a municipality may acquire the desired

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[1] *The Independent*, 6th May 1897, p. 572, Professor E. R. A. Seligman.

control over any industry which tends to become a monopoly because of such rights. Public control over any industry may also be acquired by the Local Authorities themselves undertaking the management of that industry; and this they may do either by building the necessary works themselves, or by buying out the private proprietors. Thus, as control of some sort is necessary in the case of monopolies, the choice lies between municipalisation and the control of private undertakers by the State. Without doubt the Local Authority, or the representatives of the people, can acquire the most complete control possible over any industry by municipalising it; and the main question to be considered in this volume is whether in any particular instance the advantages thus gained are or are not outweighed by the disadvantages which, as will be seen later, always accompany the management of any industry by a public body.

(9) In the case of all monopolies now frequently municipalised, the proprietors must acquire some rights over the streets. This is not, of course, the case, as a rule, with competitive trades; and although little progress has actually been made in the direction of the public ownership of competitive industries, this is a subject which is coming more and more to the front, and one which can by no means be neglected. The difference between competitive industries and monopolies is, however, rather one of degree than one of kind; and almost all trades are, and I think should be, to a certain extent, subject to State control. In the case of competitive industries the State does not, it is true, grant to

the undertakers any special rights; the State merely declares that it shall not be lawful to carry them on unless certain regulations are obeyed, a prohibition which may be justified merely on the ground of the beneficial results produced. In fact many of the arguments here discussed will be found to be applicable both to monopolies and to competitive trades, though with *very* different force in the two cases.

(10) It is very important to bear in mind during every stage of this controversy that the real question at issue is the *choice* between Municipal Trade and the State control of private undertakers. Many economists have laid down *criteria* by means of which we should be able to determine whether any particular industry is or is not likely to be efficiently managed by a government department. Jevons, for example, gives four such *criteria*. The first declares that success is probable "where numberless wide-"spread operations can only be efficiently connected, "united, and co-ordinated in a single all-extensive "government system." This, however, amounts to little more than declaring that the Government, in certain cases, where the operations are very extensive, can manage the business more effectively than any private undertaker; a remark which, though certainly to the point, is more applicable to such cases as that of a national postal system than to any Municipal Trade. As to the three other *criteria*, it will be observed that they not only indicate the circumstances in which public bodies can themselves effectively undertake the actual *management* or working of a trade, but they also point to the conditions which, if fulfilled, make it

easy for the State to *control* that trade whilst in private hands. These *criteria* are:—

(2) "Where the operations possess an invari-
"able routine-like character.

(3) "Where they are performed under the
"public eye or for the service of
"individuals who will immediately detect
"and expose any failure or laxity.

(4) "Where there is but little capital expendi-
"ture, so that each year's revenue and
"expense account shall represent with
"sufficient accuracy the real commercial
"conditions of the department."[1]

This last *criterion* also indicates, I think, with fair accuracy a condition which must be fulfilled if it is to be easy to determine whether a private undertaker is or is not charging a fair price; and, as all these last three *criteria* point to circumstances which facilitate both State control and State management, they help us but little in the choice between the two.

(11) At the present moment Municipal Trade is apparently more popular than the State regulation of private trade; and this popularity has been claimed as furnishing an argument in its favour. In order to decide whether this claim can be admitted or not, several questions have to be considered. To what extent does this popularity depend on mere unreasoned sentiment? Or does it spring entirely from the belief that Municipal Trade is on the whole beneficial to the community? And to what extent can such beliefs, even if widespread, be relied on as indicating that such benefits will really accrue?

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[1] *Jour. of the Manchester Stats. Soc.*, W. S. Jevons, April 1867.

These, and other doubtful points, must be examined before we can decide whether the alleged popularity of Municipal Trade should be allowed to tell in its favour.

(12) As regards any sentiment in favour of Municipal Trade—that is to say, any popularity which is not based on alleged definite intrinsic merits—where there is, as in England, a keen interest in local affairs, it is but natural that there should be a desire for something to expend that interest on. A feeling of gratification at their city's achievements is felt by most citizens, especially by those possessing the municipal franchise, because the sentiment that they have a share in the ownership and management of large municipal works is agreeable to them, even if that share be excessively small; and such feelings will create a desire for a further increase in the number of the functions to be performed by municipalities. But does this desire, founded on this feeling, indicate in the slightest degree that any such increase in the functions performed by the State would be beneficial? The interest felt by citizens in civic affairs may be increased by the initiation of new municipal enterprises; and Municipal Trade may thus produce a certain beneficial result. But that is not the point at present under discussion. We are considering whether the popularity of Municipal Trade proves it to be *intrinsically* beneficial; and, as far as popularity depends on mere sentiment, it obviously proves nothing.

(13) As regards such popularity as is dependent on an actual belief in the beneficial operation of Municipal Trade, it is perhaps unnecessary here to consider at length how wide-

spread that popularity really is. One difficulty in attempting to form an opinion on this matter should, however, be noticed. Where Municipal Trade is extensively undertaken, the various municipal enterprises must be frequently discussed at public meetings; and, if either the policy or the management of the Councillors is criticised, an energetic defence will be made by themselves or their friends, who will take care that their praise of the local institutions is well reported in the local press. On the other hand, in towns where similar undertakings are left in private hands, their management is less likely to be attacked because such attacks would serve no party purpose unless the attack is for the purpose of bringing the works under municipal management; and, if any attack is made on other grounds, there is much less likelihood of there being any one present desirous of speaking in defence of the private proprietors. Thus the contrast between the records of public meetings in localities where Municipal Trade flourishes with those in localities where monopolies are generally managed by private proprietors creates an erroneous impression as to the popularity of Municipal Trade, and may make it appear more popular than it really is.

(14) Without doubt, however, this popularity in England is both widespread and rational; and it is, therefore, necessary to enquire on what foundation it is built. In order that it may be possible for any one to form an independent opinion as to the relative merits of municipal and private trade, he must have some means of comparing the two methods of management as applied to the same

trade under somewhat similar circumstances. With very few people is this possible; and this creates a tendency in almost every one to rely largely on the opinion of others. In order to estimate the value of public opinion, we ought, therefore, to scrutinise very carefully those individual judgments which are most likely to influence the opinion of the many. In the first place, are those who rely on the opinions of others likely to have both sides of the controversy placed before them with equal force? This is very unlikely to be the case. We have just seen that the private proprietor, whose position does not depend on the ballot box, will have a far less pressing object than the municipal councillor in getting the management of his works praised in the public press. Moreover, if we go to the secretary of a private gas company, for example, he may decline to give us the information we require. But if we go to the town clerk of some big city, he will probably put us in the way of obtaining copious printed reports on the Municipal Gas Works, generally of a favourable character. The readily available evidence in favour of Municipal Trade is, in fact, far more voluminous than that in favour of private trade; and this alone certainly makes comparisons difficult, and probably makes public opinion somewhat unduly favourable to municipal enterprise.

(15) This less voluminous evidence in favour of private trade must be largely obtained from the officials of private companies; and, being thus obtained, it will be, and, what is more to the point at present, it will generally be held to be

prejudiced by a desire on the part of these officials to consider the interest of their shareholders rather than that of the public generally. On the other hand, the more voluminous evidence in favour of Municipal Trade, which must be largely obtained from municipal officials, will generally be held to be unprejudiced, as being given in the public interest; and it will therefore carry all the more weight in directing public opinion. But can these official utterances be regarded as being free from prejudice? They are usually very optimistic, and the question is whether this optimism is based on a calm judgment of the relative advantages and disadvantages of the two systems. Town councillors are under the obvious temptation, for party purposes, to dwell on the merits of their own management to the neglect of its demerits; and, even where their convictions are fully stated, these expressions of opinion are likely to be unduly favourable to Municipal Trade. It is perhaps natural that the greater the number of duties performed by town councillors, the greater should be held to be the dignity of the council; and the desire to place their council on a level with other councils, and, by a slight confusion of mind, the desire to place their town on a level with other towns, often makes councillors advocate new municipal enterprises. The love of work and responsibility is to a very large extent the underlying motive which induces men to undertake the useful but thankless task of town councillor; and, where this love of work and responsibility exists, there it is certain that a desire will be felt to increase the amount of work to be undertaken or supervised. Those councillors, who because of their energy have the most influence, will generally be those most tempted to look with favour on new projects independently of their merits. As to existing enterprises, many councillors will never before their election have had any connection with large undertakings; and this novelty may make them unduly proud of the work for which their council has already made itself responsible. When municipal problems are considered by councillors in this spirit, it is not likely that a system which gives them comparatively little responsibility will be weighed without any prejudice against a system under which full scope is given for satisfying their undoubtedly high aspirations. All men are apt to confuse trying to do good with doing good, and energetic councillors are certain to take an unduly favourable view of the municipal enterprises which they are managing for the benefit of the public.

(16) Somewhat the same influences which affect councillors will also affect salaried municipal officials, and consequently, in their case also, the more energetic and able they are, the more likely will they be to view with favour new projects connected with Municipal Trade. Moreover, new municipal enterprises must often be accompanied by an increase in the salaries of the permanent officials; and, when Parliament has to be approached, considerable fees have to be paid to the solicitors employed, many of whom also act as town clerks; and it is absurd to deny that many men are consciously, or unconsciously, influenced in favour of any project which may increase their emoluments. But, even

if very little weight be attached to this latter consideration, it can hardly be asserted that the evidence given by municipal officials is unprejudiced; a point which it is important to note, because not only do they supply the bulk of the written evidence with regard to Municipal Trade, but they also have great power in influencing town councils on all such questions.

(17) Elected representatives undertaking Municipal Trade occupy a somewhat anomalous position; for not only do they represent the buyers and consumers, but they are also the manufacturers and salesmen. Under existing social conditions, we are not accustomed to this dual position; and a councillor is consequently apt to devote his attention mainly to one attribute of his position to the partial exclusion of the other. Socialists, who advocate Municipal Trade for reasons already given, are most likely to view the matter from the consumer's standpoint. On the other hand, a business man, when elected on to a council, may suddenly find himself associated in the management of an industrial monopoly, the price of the produce of which he can to a great extent control. The sensation is new to him and pleasant; and, if the consumers are fairly contented, his satisfaction as a manufacturer and seller may stifle any little doubts he may feel when he regards himself as a representative of the consumers. Thus the dual position occupied by councillors may perhaps partly account for the anomaly sometimes seen of Socialists and conservative men of business joining together in the advocacy of the public control of certain industries.

(18) It is far easier for existing councillors and officials to throw doubts on the wisdom of their predecessors for having initiated some municipal enterprise than in a similar way to criticise their own actions in having taken a similar step. Few men are strong-minded enough to search for evidence which might convict themselves of an error in judgment with regard to any matter, especially when they feel that it is too late to retrace their steps; and few who have actually shared in the heavy labour involved in placing some trade under municipal control will or can impartially consider whether it had not better have been left in private hands. Though their successors may perceive it, the originators of such schemes are not likely to detect any error they may have made, and consequently the prejudice in favour of municipal management in official circles will be most strongly felt in periods when most progress is being made in this direction. It has been seen that a very large proportion of English municipal trades have been but recently established; and official utterances concerning them are therefore at present especially unreliable as indications of their success.

(19) Thus we see that popular interest in local affairs and official energy are forces tending to promote Municipal Trade, even in cases where the wiser course would be to subject the private proprietor to adequate control. The interest felt by the public in local affairs is nowhere greater than in England; and, whatever view may be taken as to the wisdom of Municipal Trade, it is not surprising, therefore, to find that it has been

practised nowhere more extensively than with us. Though this interest in local affairs is of enormous value in ensuring that all work undertaken will be well done, it is of less use as a safeguard against the initiation of unwise municipal enterprises. Popular judgments on such matters are largely guided by official utterances; official utterances are certain to be prejudiced in favour of municipal management; and the popularity of any municipal enterprise is therefore an uncertain guide as to the benefits which have actually been derived from it.

(20) But, even if popular approval could be taken as a proof that a community had actually experienced benefits from the municipalisation of any particular trade, would it necessarily follow that this step had been a wise one? Must we not look to the ultimate results as well as to the immediate consequences? And is it not possible that the system which works best in the long run may not be that which bears the best fruit at first? It will be seen in a subsequent chapter that Municipal Trade tends to foster municipal corruption. But, when it has this evil effect, the harmful results are only gradually produced. The additional work thrown on Municipal Councils by municipal trading operations also has a harmful tendency, the full influence of which is not felt for many years. There are, moreover, other and less subtle reasons for suspecting that the beneficial results arising from the municipalisation of any institution may be only of a temporary character. Management depends more on the men employed as managers than on the system under which they work; and, as Municipal Trade is especially likely to be advocated in the case of an industry where the

private managers are inefficient, there is often an exceptionally favourable opportunity for the production of beneficial results. New brooms sweep clean, whereas old officials, public or private, are apt to become sleepy and inefficient. Any reform which brings about a considerable change in the *personnel*, may, therefore, do some good for the time being without producing any lasting results. Thus, for all these reasons, we should expect to find that good results might often immediately follow the municipalisation of an industry, even if it would really be best for the community in the long run that the trade should remain in private hands; and, in so far as popularity is dependent on immediate results, it must be discounted accordingly as a guide for future action.

(21) Here the importance of remembering that the choice lies between Municipal Trade and the regulation of private trade becomes evident. The effect both of the municipalisation of an industry and of some modification of the legislation affecting it whilst in private hands might be beneficial; and the question is—which would be most beneficial? To completely establish the case in favour of Municipal Trade, it is not sufficient to prove that it has been on the whole "a brilliant success"; for it must be shown, not only that Local Authorities have, generally speaking, managed these industrial undertakings better than the replaced private proprietors, but also that better results could not have been produced in some other way. It is not wise, for example, merely to compare gas-works under municipal management with the same works as they were found under private management, without at

the same time considering the improvements which might have resulted from reforms in the laws affecting private gas-works. Even if a favourable popular judgment could be accepted as a conclusive indication that, on the supposition that no change would be made in existing legislation, beneficial results from the municipalisation of any particular industry would be permanently felt, it would not follow as a logical consequence that that was the best reform which could have been adopted.

(22) Public opinion is, moreover, far too much swayed by obvious results and obvious arguments. The pride felt by independent citizens in the municipal ownership of large enterprises, which has been mentioned as an unreasonable sentiment tending to promote Municipal Trade, is no doubt in most cases accompanied by the belief that municipal property is profitable, that the public revenues are increased by such public possessions, and that consequently taxation will be lessened when Municipal Trade is undertaken. In subsequent chapters dealing with municipal finance it will be seen that it is extraordinarily difficult to estimate what has been the result, *on the average*, of Municipal Trade on municipal taxation, because the obvious facts standing by themselves are most misleading. Now the ordinary citizen who is told that the fares on tramways are usually lowered when municipalities take over the management of private lines will be much impressed by this fact; whereas he will hardly listen to any reasoning tending to prove that, had proper precautions been taken, the fares might have been reduced as much or even more had the tramways been allowed to remain in private hands.

Again, if it can be shown that the price of gas made by municipal works is, on the average, lower than the price of gas made by private companies, this fact is easily grasped by every householder; whereas comparatively few will take the trouble to consider whether various circumstances do not on the average favour the municipalities as compared with the private producers, and whether, if this be the case, such average comparisons are not absolutely worthless. Still more likely to be overlooked by the casual enquirer are the arguments against Municipal Trade which depend on the increased chances of corruption, the increased work thrown on the Local Authorities, and the advantages of free competition. "The good which State interference does is often "something visible and tangible. The evil which it "does is much more indirect, and can only be appre-"ciated by careful study."[1] Popularity is, therefore, a singularly delusive test of the success of public institutions.

(23) Thus we see that there are many circumstances which have tended to make certain trades exhibit the characteristics of monopolies; that this tendency is increasing with the advancement of science; that the importance of the subject is increasing with the increase of urban as compared with rural population; and that the choice lies practically between municipalising these industries, and subjecting them to a considerable amount of State control. The circumstances connected with truly competitive trades are no doubt very different; but the same choice exists, and most of the arguments here used are applicable with increased or

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[1] "Economics," Hadley, p. 18.

diminished strength to them as well as to monopolies. That it is a choice between two alternatives is often forgotten, especially by those who are satisfied by a mere demonstration of the "success" of Municipal Trade. Municipal Trade is now probably more popular than the State regulation of private trade; but the praise of Municipal Trade in periodical literature is an unsure guide as to its real popularity. The many, who are incapable of forming an independent opinion on this subject, frequently rely on those few who express their opinions freely, however they may be formed. Town councillors and civic officials, who are naturally prejudiced in favour of the results of their own management, have many opportunities of influencing public opinion; whilst the officials of private companies, who are no doubt prejudiced in the opposite direction, are less willing and less able to make their views widely known. For these reasons, and because most men are too much swayed by the more obvious facts and arguments, popularity cannot be accepted as a weighty indication that Municipal Trade is the reform which is most beneficial and most needed. The evidence on both sides is no doubt prejudiced; and those embarking on this enquiry should put aside preconceived ideas, and allow their judgments to be swayed by none but logical arguments and well established facts.

IV

THE ADVANTAGES OF MUNICIPAL TRADE

(1) It has been stated that, in certain cities in the United States, the sewage system is in the hands of private companies, being managed by them on commercial principles. No one would now defend such a condition of things, for Socialists and individualists would condemn it equally strongly. But many persons, if asked why they condemn it, would reply that they hold it to be wrong to allow any service which is of such vital importance to the community to be made a source of profit by private individuals; and this answer they would give without perceiving that it went a long way towards admitting the whole case in favour of Socialism. Are not good houses, proper clothes, and cheap food of vital importance to the community? And if the importance to the community be the test on which the choice between municipal and private trade is to rest, the municipalisation of all the industries connected with the production of all the necessaries of life must be held to be justifiable. If municipalisation were carried to this extent, it would be of comparatively little importance whether the production of luxuries were or were not retained in private hands.

(2) Moreover, few but Socialists of an extreme

type wish to have all the industries connected with the sewage systems of our towns placed in public hands. The work of the engineer and of the sanitary inspector should, it is now almost universally admitted, be performed by public officials. Some hold that sewers should always be built by contractors, whilst others persistently advocate the direct employment of labour by the municipality for this work; in other words, the question whether the trade of the bricklayer, the mason, and the labourer should or should not be municipalised, as far as sewage work is concerned, is a disputed point. None but advanced Socialists would, however, object to the bricks used in the construction of the sewers being made by private firms. Thus the importance to the public of any service is not even generally held to afford any criterion by which it can be decided how far the municipalisation of that service is advisable.

(3) Those, therefore, who are not Socialists, and who condemn the public ownership of bakeries, for example, whilst advocating the public ownership of sewers, if they are to remain on logical ground, must not base the distinction between the two cases on the relative utility of these services to the public. Those who are not Socialists hold that there are many objections to the public management of industries, objections which will appear incidentally in subsequent chapters; and, holding these views, they must in each case find some special advantages of sufficient weight to outweigh these general disadvantages before they can advocate the municipalisation of any industry. In fact, the onus of proof, according to our views,

lies with those who would abolish the private trader. And it may clear the ground if we consider briefly what are the arguments in favour of the municipal management of sewers which do not apply to the municipalisation of bakeries.

(4) The case against Socialism rests mainly on the belief that, when competition is permitted, the power which the consumer has of changing his baker, for example, gives him the best guarantee practically available that he will get his bread as good and cheap as possible. If it could be proved that production under the management of elected bodies would generally be better and cheaper than production by private trade, this argument would be destroyed; but this, as will be seen in a subsequent chapter, is most improbable. But with regard to the industries described as monopolies in the preceding chapter, where competition is either limited or impossible, this plea against State interference has but little weight; and, as we have seen, either municipalisation or State regulation is often necessary. Where there is no competition, the private owners of monopolies, if free to do so, would obviously sell their goods at the price which would bring them in the greatest net profit; and this would, as a rule, mean higher prices and smaller supplies than under a condition of things where free competition existed. Without competition there is, in fact, no automatic lowering of prices to the lowest level attainable; and, when this is the case, the State must step in and undertake the duty of regulation. The less prices are affected by competition the more necessary does it become for the State to

act in this manner. In the case of the private control of sewers, when the monopoly would be practically complete because the householder in towns cannot dispose of sewage except by the means thus provided, the State obviously on this ground alone must either exercise the most rigid control or manage the work itself.

(5) As to the choice between the alternatives of management and control, private proprietors are certain to consider all questions connected with their trade almost solely with reference to the way in which their profits would be affected; and they will pay hardly any attention to public health, morals, order, or convenience, especially when such attention would tend to diminish their profits. Councillors will, no doubt, also consider both sides of the question; but, where the case requires it, they will put the question of profit out of consideration altogether and will only look to the other questions involved. No doubt Local Authorities can obtain the most complete control over an undertaking by managing it themselves; and when, as in the case of sewers, the sanitary questions involved are of such vital importance that it is wise to neglect entirely all thoughts of profit, then municipal management is frequently better than private management.

(6) Another important point to be held in view is the practicability of State regulation of private trade, and this largely depends on the ease with which the price to be charged to the consumer can be estimated. With gas, for example, there is no difficulty in estimating the exact quantity supplied to each householder, and both its quality and the

cost of its production can be estimated without, at all events, any large percentage of error. Hence the price which should be paid by the consumer can be determined with fair accuracy, and a schedule of prices can be set forth in the concessions granted to gas companies. But with sewage works, on the other hand, it would be very difficult to ascertain by inspection whether the service was being effectively performed, what it was costing, and how the cost should be shared amongst the householders benefited; and it would be impossible for a municipality to agree to pay a private proprietor by the results in such a manner as to ensure the work being well done. No doubt, under a system of municipal trading, the question of inspection also presents great difficulties; but, at all events, there ought to be no temptation in this case to make a profit by doing bad work. Thus the difficulty in estimating the cost of the work is certainly one of the reasons why the municipalisation of gas is a far less pressing need than the municipalisation of sewage.

(7) Thus, in cases where municipalisation is generally held to be necessary, it appears that there are three conditions usually fulfilled. The enterprise is one which would be a complete monopoly were it in private hands, the services rendered are of great importance to the community at large, and the fair price to be paid for the work performed is not readily estimated in advance. We reject the private control of sewers, not only because of the vital importance of that service to the public, but also because the payment of an adequate price to a private proprietor would not be an efficient method

of securing a thoroughly good system, however carefully the position might be safeguarded by law. As to the municipalisation of other industries, before the case in favour of such a step can be established, it is necessary to consider how far the undoubted advantages of municipal trading, where public interests are concerned, are outbalanced by the disadvantages always accompanying State management, and how far the evils resulting from private trade can be obviated by State control. This enquiry is necessary; but no one now denies that the balance tells in favour of municipal management in many cases.

(8) It is to be observed, moreover, that other troubles besides those suggested above may arise from private management when the price and the benefits received do not go hand in hand. In the case of liquor, for example, the danger of unregulated trade is the stimulus to consumption and not the restriction of supplies, and municipalisation has been advocated on the ground that drinking might thus be diminished. This subject is too wide and too special to be discussed here, and I must content myself with saying that, though some such reform would, I believe, be advisable, the danger of corruption makes it highly inexpedient to place the control of many public-houses in the hands of Municipal Councils. A somewhat similar argument may in certain circumstances justify the establishment of municipal pawnshops; for, in the absence of private proprietors, thieves would be less sheltered, and police supervision would be facilitated. Then, again, price, where trade is free, depends on what the consumer is willing to pay; and, if he

does not recognise the benefit to himself of the service proposed to be rendered, he will not pay the price necessary to induce the private proprietor to perform the work. Baths would be but little used in many localities if the bathers had to pay the full cost, and it may be wise for a municipality to run bathing establishments at a loss in order to promote cleanliness. It is true that somewhat similar results might be obtained by giving bounties to the private proprietors of baths; but such bounties are always somewhat objectionable. Public baths are often, therefore, a most legitimate object for municipal enterprise:[1] but, when bathing establishments are erected by municipalities to attract visitors to the locality, a totally different set of considerations arise.

(9) In the case of a harbour, though the whole of the inhabitants in its neighbourhood will probably be beneficially affected by its construction, it is, nevertheless, impossible for a private company to obtain any return directly from all of them for rendering them such a service. It may, moreover, be difficult for a company to throw the whole cost on the shippers without driving away the shipping to other ports; in which case private enterprise cannot succeed. For this reason, harbours have often been largely subsidised or actually built by the State, and the necessity for such action has been, no doubt, especially felt where the enterprise was of such magnitude as to alarm private capitalists. The management, in these circumstances, naturally passed, partially or wholly, into the hands of elected bodies. This is as it should be; but the arguments here

[1] M.T.R., Q. 2262.

suggested in favour of the construction and maintenance of harbours by any public body do not necessarily apply to the purchase of existing private harbours by Local Authorities. A harbour in private hands may be a very complete monopoly, and, where this is the case, the management must be subject to control, a condition of things which may or may not be preferable to municipalisation.

(10) As to markets, cemeteries, and slaughter-houses, it is doubtful if they should be included in a work on Municipal Trade. But, however classed, their existence as municipal enterprises is justified for much the same reasons as those given in the case of baths and harbours. Markets can often be more easily established by municipalities than by private individuals. Markets should be concentrated for the convenience of the public, and, if thus concentrated and in private hands, they are apt to become monopolies. Thus municipalisation is often advisable; and, if markets become public institutions, objection can hardly be taken to their being kept up to the requirements of the times by the addition of cold air storage for meat and other modern improvements. As to cemeteries, the proper burial of the dead must be enforced, and enforced without the least delay, and the public must defray the cost when it is not forthcoming from the relatives. The prospective growth of towns makes it necessary for the Local Authorities concerned to spend large sums in the purchase of land for which no return can be received for years, and, public cemeteries, though costly, are practically a necessity. As to slaughter-houses, both in the interests of public

health, and to prevent cruelty to animals, they should not exist as small and scattered institutions. Concentration would seldom, if ever, be brought about by private proprietors with a view to their own interests, and the establishment of municipal abattoirs often produces beneficial results.

(11) The foregoing discussion on the various services which may often with advantage be municipalised, and the following remarks on waterworks, relate only to the effect of the actual management by Local Authorities. The question of the direct employment of labour on the construction of these and other works opens up totally different considerations. Where work is let out to contract, the contractor has to make a profit, and to employ foremen to superintend the work, whilst the municipality is paying superintendents of its own. Obviously, therefore, it is often *possible* by the direct labour system to save some of the contractor's profit or to spend less in superintendence. Such a saving is most likely to be practicable when the work is scattered, and when the cost of superintendence forms a comparatively large percentage of the total expenditure, as in the case of street-cleaning. In sewage works, where the building is quickly covered up and hidden, the difficulty of superintendence is also great; and here also the direct labour system is widely advocated and frequently adopted. As to the quality of the work thus performed, much has been written on both sides in this controversy, but probably the Report of the Massachusetts Board of Investigation that "city work is better or at least as good as "that done by contract" may be accepted as being

on the whole accurate.[1] The less economy is studied the more easy is it to get good work done; and it is as to the cost that direct labour shows its weak side. Professor J. R. Commons, whilst advocating this system, and bringing forward many facts in its favour, tells us that "in Massachusetts "the legal rate for unskilled labour on public works "is $2·00 per day of nine hours, whereas contractors "employ the same labour for 90 cents. to $1·25 per "day of ten hours. Consequently," he adds, "in "that State public authorities are at a heavy dis-"advantage."[2] This may be a somewhat exceptional case. But direct labour will always be paid at a higher rate for the work done than contract labour; and this increase of cost must be set against the possible saving of contractors' profits and the problematical superiority in quality. The corrupting effect of the direct employment of labour on municipal administration to be discussed in the next chapter, and the fact that in many cases "partisan "politics affects the quality of city work"[3] must also be weighed in the balance. My own impression is that in the case of sewers, with a good municipal engineer, sufficiently good work can be done under the contract system at a cheaper rate; and that, with more easily inspected work, the balance is even more decidedly against the direct employment system.

(12) The construction and maintenance of roads is now certainly not regarded as an instance of

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[1] "Massachusetts Report on the Unemployed: Public Works," p. 82, quoted by Prof. J. R. Commons in "The Day Labour and Contract System," *Yale Review*, vol. v. p. 430.

[2] *Ibid.*, p. 431.

[3] *Ibid.*, p. 430.

municipal trading; though it is in fact but few years since turnpike roads were discontinued. These roads were made by private capital, the right to levy a toll being the security on which the money was raised; and the management was usually placed in the hands of trustees, partly public and partly private. This system was abolished, not because the roads were as a rule badly kept, nor because of the expense; but mainly because the levying of a toll was found to be an inconvenient and inequitable method of paying for the benefits received. The difficulties attendant on any system of private road-making in towns have made this work a public duty from time immemorial. Many of the circumstances connected with this service are favourable to the direct employment of labour.

(13) The care of streets is now, therefore, necessarily placed in public hands; and a plea for the municipalisation of many industries is based on this fact. The managers of water-works, gas-works, and electric lighting works must have the right of opening roadways; great inconvenience will be experienced by the public, so it is urged, if more than one authority possesses any such rights; and consequently, all these industries should be managed by highway authorities or municipalities. In order to avoid so large an extension of their functions, it has been suggested that Local Authorities should lay the pipes, etc., under the streets, leaving all the rest of the business connected with these industries in the hands of private companies; and no doubt the difficulties arising from the multiplicity of the authorities interfering with the roadways would thus be obviated. But this is in all probability an

impracticable proposal; for badly laid pipes might cause heavy losses through leakages, and private proprietors would not venture on any enterprise in which such losses might be thrown on them by workmen over whom they had no control. Thus the municipal management of the streets undoubtedly affords an argument in favour of municipal trading which must be considered; for, obviously, it would be convenient if one authority only dealt with all questions connected with the streets; and the nuisance arising from conflicting authorities has been found to be quite intolerable when many companies have been competing in the same roadway. But when only one private company is allowed to supply the same goods or to perform the same service in a given area, the inconvenience is not necessarily really serious; because the public authorities, if they desire to do so, soon find a way of working harmoniously with the private proprietors, whose interest it certainly is to be on good terms with them. Moreover, when councillors are also the managers of gas-works, for example, they are, as before remarked, acting in a dual capacity; and, if they dwell too much on their duties as gas manufacturers, they may neglect the duty they have to perform of seeing that the public are as little inconvenienced as possible by the employees of the gas-works. With gas-works in private hands, this latter duty, being the main obligation of the Local Authorities respecting them, is unlikely to be neglected. It has been confidently asserted that, for this reason and because private proprietors generally contrive to get their work more rapidly performed than municipalities, the public are in reality less inconvenienced from broken-up streets in towns where the gas-works are owned by private companies than where they are municipalised.[1] More unprejudiced evidence is required than we possess to settle this point; but it appears to me that the balance is sufficiently even to make it safe to assert that this is not a strong argument in favour of the municipalisation of water, gas, electricity, and telephones.

(14) The private rights now usually exercised by tramway companies do, however, without doubt give rise to more or less serious inconvenience; for highway authorities and private tramway companies both have to work on the surface, and they are, therefore, more likely to come into collision with each other than when, as in the case of gas-works, the men employed by the public authoritity are working mainly on the surface and the private workmen mainly below it. Corporations, it is true, have the whip hand according to the law; but it is nevertheless not always easy for them to make private proprietors do what is necessary. In St Helens, for example, "it was found that the roads "had got into such a miserable state that the company, "not being a strong one financially, the only way of "putting the thing on a proper basis was to buy them "out."[2] American experience confirms this view; for it has been reported that "whenever there was "divided responsibility in the care or construction of "streets, there was contention."[3] Sometimes it is desirable, for the public safety or for other reasons, to make minor alterations in the tram-lines, and all such proceedings are far easier if the highway

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[1] M.T.R., Qs. 3268, 3402.

[2] *Ibid.*, Q. 3047.

[3] "Report of Special Committee, Cities and Street Railways," Massachusetts, 1898, p. 111.

authority has the sole right of dealing with the surface of the streets.[1] The widening of streets and the construction of tramways must often go hand in hand, and Corporations have spent large sums on such widenings when constructing tramways themselves; sums which, it is suggested, they would not have spent if the tram-lines had been constructed by private companies.[2] Which way this latter argument tells may well be doubted; for if any widening, taking all things into consideration, was worth the money spent on it, it should have been undertaken in all circumstances; whereas, if it was not worth it, the private control of the tramways might have saved the city in question from unnecessary expenditure. However this may be, the plan least likely to give rise to friction would, no doubt, be for one authority only to prepare the street surface for traffic; and, as the Corporation must of necessity take care of the bulk of the street surface, it seems reasonable that they should take care of the whole surface, tram-lines and all.

(15) But this argument in favour of tramway lines being laid and repaired by Local Authorities does not necessarily tell in favour of the municipal management of the whole of the tramway business; for, in the above-mentioned case of St Helens, the Corporation, after having bought out the company and after having put the roadway in good order, in reality leased the right to run cars on the tram-lines to another company. It may be urged that a company would not readily undertake to run cars on lines laid by a municipality because of the possibility of accidents for which they would not be

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[1] M.T.R., Q. 1998.

[2] *Ibid.*, Q. 3050.

to blame. But a Local Authority would be liable for the results of its own negligence with regard to the tram-lines, just as it is now liable in the case of omnibus accidents arising from its negligence with regard to the roadway; and experience proves that, with suitable regulations, tramway companies are as ready to run cars on municipal tram-lines as are omnibus companies to run vehicles on municipal roadways. The company might supply the rails, and might perhaps be responsible for *reporting* when they should be renewed, thus making the responsibility of municipalities as limited and as definite as possible. The right to run trams is usually more of the nature of a monopoly than the right to run omnibuses; and, although this difference might possibly justify the municipalisation of the one and not that of the other, the public ownership of the streets can hardly be said to necessitate any difference in the treatment of the two industries. Omnibus companies in Paris are subject to special taxation, and tramway companies running on municipal lines might, in the same way, be made to pay a special tax or rent. Both would in these circumstances receive and pay for the benefits resulting from municipal expenditure. In Germany, where municipal management is not regarded with favour, the "settled policy is to have everything pertaining "to the street and pavement pass into the owner-"ship of the municipality at some not remote future "time."[1] The "system under which the municipality "both owns and controls the whole surface of its "streets, whether paved with other material or with

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[1] "Report of Special Committee, Cities and Street Railways," Massachusetts, 1898, p. 30.

"iron, and leases to a private company the right to "run vehicles over prescribed routes on tracks therein "specially provided," is "better and more logical" than the system under which private proprietors of tramways are responsible for the care of only part of the roadway; and nothing which has been said thus far tends to prove that this is not the best system which could be adopted.[1]

(16) It will be convenient here to brush aside one or two arguments which have been brought forward for and against the municipalisation of tramways. The same fare is usually charged in the United States whether the passenger travels for a short or for a long distance, and, consequently, the long distance journeys into the suburbs are cheap. The congestion in the centre of large cities is, it is said, thus relieved by these privately managed tramways more effectively than by means of the municipal tramways in the United Kingdom—those at Glasgow, for example, where the short journeys are cheaper and the long journeys dearer. Much might be written both as to the facts of the case, and as to the conclusions to be drawn from them; but, as the difference between the two systems is mainly due to differences between the customs and circumstances of the two countries, and not to any inherent differences between public and private management, there is no necessity to discuss the subject here. On the other hand, it has been urged that the municipalisation of tramways would be "an aid to the wise distribution of population "throughout the town's area";[2] and, in support of

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[1] "Report of Special Committee, Cities and Street Railways," Massachusetts, 1898, p. 29.

[2] "Municipal Government in Great Britain," Albert Shaw, p. 206.

such a view, it has been stated that municipalities would push their lines into outlying districts more rapidly than private companies. Reasons will, however, be given in a subsequent chapter for believing that municipal trading would, as a rule, have the opposite effect; for, in comparison with what would be found under private management, such extensions would for various reasons be less probable. This is no doubt denied; and the advocates of Municipal Trade have replied that Local Authorities should be and would be more willing than private companies to face the risks involved in running tramways into poor outlying districts; a merit of their administration which bears a different aspect when interpreted as an assertion that Town Councils are more willing to speculate with the ratepayers' money than are the directors of companies to speculate with their shareholders' contributions. The prospect of making a profit is generally the best method of judging the needs of the public in matters of locomotion; and such prospective profits will usually be most accurately estimated by private proprietors. Thus, this argument tells against, and not in favour of the *initiation* of tramway enterprises by Local Authorities. Even if I am right in thinking that it would generally be best for municipalities to deal with the whole street surface, it would not follow that it would be wise for them to lay down any new lines until a responsible company had agreed to pay for a part or for all of the cost of construction, according to an agreed specification, and to take a lease of the running rights for a number of years.[1]

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[1] M.T.R., Qs. 2113 and 4226.

(17) We have, however, been wandering somewhat far from the point, namely, the special advantages of Municipal Trade which are felt with regard to monopolies of great public importance when the cost of the service is not easily estimated. The business of supplying pure water is certainly covered by this description. Its public importance is unquestionable, and it is, therefore, an object for which it is justifiable to face considerable risk. In the centre of large towns it is an absolute monopoly, and private proprietors, if uncontrolled, would be enabled to charge rates entirely independent of the cost of supply. But the most important point is that the cost of supplying a certain quantity of water in one locality is no criterion of the cost of supplying either the same amount in another locality or an increased amount in the same locality. In granting concessions to private companies it is therefore impossible to include clauses regulating the price to be paid for water in all possible contingencies. The best that can be done, though it seldom is done, is to insert clauses giving the Local Authorities concerned the right to purchase the works at a fair valuation; a subject to be discussed in chap. xiii. In the absence of such purchase clauses, and to a less extent when they have been inserted, Local Authorities may find themselves much at the mercy of water companies when any change takes place in the circumstances affecting the demand or the supply. For example, we hear of a "town in the north of England" where the water supplied by a company was "extremely "hard, and contained a considerable amount of

"salt." No doubt, when the company was formed, less attention was paid to such matters, and the quality of the water was not questioned. The company was paying "good dividends," and it appears to have resisted the pressure of the Town Council, which was, no doubt, exercised with the view of forcing steps to be taken which would have had the effect of lowering these dividends without giving what appeared to the shareholders adequate compensation. "After very great exer- "tions, the Council were able to prevent the water "company from supplying from a source contami- "nated with salt; but cutting off this supply "caused the pressure in the mains to fall far "below what it should have been."[1] Again, in such a case as the old private supply of water for Birmingham from neighbouring sources, it was probably sound commercial instinct which led the directors of the companies concerned to hesitate to embark on such a scheme as that which is now being completed by the Corporation; and it may be safely asserted that a private water supply would never have been obtained from Wales because there would have been "no profit" in such an enterprise under any concession which would have been granted to private proprietors. When, as in this case, a new supply would be more costly than the old one, the only way to induce an existing company to develop this new supply would be to allow a higher water rate to be charged for all supplies, old and new; and, even if the company took no advantage of its commanding position, and merely proposed a reasonable addition to the water rate, it would be very difficult for the Local Authority to convince themselves that the addition proposed was reasonable. Probably even a greater difficulty would be to obtain the popular assent to any increase in the rate of payment to private proprietors. Other illustrations might no doubt be given of the difficulties concerning water supplies which must almost inevitably arise between directors, bound to make the interests of their shareholders their first consideration, and Local Authorities and the public, who are often unable to judge of the fair price to be paid as compensation for new requirements.

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[1] "Traction and Transmission," Joseph A. Jeckell, April 1902, p. 238.

(18) As regards gas and electrical works, a knowledge of the cost of an existing supply will enable an expert to form a very fairly accurate estimate of the cost of an additional supply; and, as compared with water-works, difficulties are therefore not so likely to arise, and less is to be gained by the municipalisation of these undertakings. The cost of producing goods of almost every description no doubt varies considerably during the course of years from causes which cannot be foreseen. The concessions granted to electrical works in England only confer rights for limited periods; but, as regards gas-works, these bargains between the public and the private proprietors have unquestionably been made without sufficient regard to these probable changes, and they are apt in time to become unsuitable to the new conditions. This is objectionable; but under different regulations the municipalisation of gas-works would offer less advantage than it does at present.

(19) It has been urged with regard to water that it is "important for the health of the people "that the supply should be in the hands of a "body which can have no motive for restricting "it."[1] This is a sound argument in favour of municipal water-works; but it is so only because of the peculiar circumstances which make it inadvisable to sell water for household purposes by quantity. If the water rate depended on the quantity consumed, economy would result in dirt and ill-health in poor districts. It is, in fact, generally held to be right both to induce the lowest stratum of society to use more water, and to force them to pay more for it, than would be the case if the trade were regulated by the ordinary economic laws of demand and supply. Any body, public or private, supplying water must have a pecuniary motive for restricting that supply if their receipts are independent of the quantity consumed; and the above-mentioned undesirable tendencies will always be more or less felt. It must, however, be admitted that the actions of private proprietors are considerably more likely to be influenced by such economical motives than is the case with Local Authorities. Companies may be even more anxious than corporations to supply *more houses*, but they will not be so willing to supply *more water* to each house. The interests of the shareholders and the interests of the public must be antagonistic on all such questions as those relating to the size of house cisterns, and the introduction of the constant supply system. The fact that water should not be sold by quantity

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[1] "The State in its relation to Trade," Lord Farrer, 1883, p. 94.

affords one of the strongest arguments in favour of municipal water supplies.

(20) The municipalisation of both gas-works and electrical works has also been urged on the ground that the quantities sold will be greater under public than under private management, with beneficial results as far as public health, order, and morality are concerned. The advantages arising from the efficient illumination of streets and of the public staircases of workmen's dwellings are obvious; and the proper lighting of private dwellings is perhaps even more important. But, if the gas-works are in private hands, Local Authorities can get as much gas for public purposes as they like to pay for; though, like private purchasers, the dearer the gas the less they will buy. If municipalities could manage such concerns better than private companies, they would be able to supply the commodities manufactured at less cost or with greater convenience to the public; and beneficial effects would undoubtedly be experienced. Then, again, if the result of municipalisation would be to divert some of the shareholders' profits, and to make them fall into the public purse, it is obvious that this would enable Local Authorities to reduce prices without incurring a loss. Both of these are reasons which have been given for believing that prices will be lower and supplies more copious under public management. Putting these arguments aside for future consideration (see chaps. vi. and vii.), it only remains here to point out that it is certainly possible for Local Authorities owning gas-works, for example,

to stimulate sales by lowering prices and to make up for the deficiency thus caused by additional taxation. But if this additional taxation were levied whilst the gas-works remained in private hands, and if the proceeds were given as a bonus to the consumers of gas, precisely the same stimulus could be given at no greater cost. Such a lowering of the price of municipal gas supplies would in fact be a concealed bounty, which hardly anyone would now defend. There may, for example, be less risk of fire with gas than with oil lamps; but it would indeed be grand-motherly legislation to attempt to lessen such risks by giving a bounty to gas consumers and refusing to give a bounty to oil consumers.[1] Or again, to allude to the argument in favour of municipal tramways already discussed, when we hear of a Corporation buying land at a considerable distance from the centre of the city, constructing a tramway to it even though the district was one "that no tramway "company would go to because it would not pay," and building cottages thereon, the wisdom of this proceeding begins to appear doubtful when we perceive that it amounts to giving a bounty to certain individuals to induce them to reside in a locality they would not otherwise inhabit.[2] To lower prices at the expense of the ratepayer cannot be right; and if the arguments in favour of Municipal Trade which are based on the copiousness of the supplies of gas and of other goods sold by quantity are sound, it must be either because municipal management is generally superior to private management, or because municipalisation presents some inherent financial advantages; in fact, it must be because of reasons which would tell in favour of the municipalisation of almost everything, and which cannot, as we shall see, be sustained.

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[1] M.T.R., Q. 2671.

[2] *Ibid.*, Q. 2416.

(21) Thus we see that, with enterprises under private management, financial questions may become too prominent; for, with a private company, the earning of a dividend for the shareholders must be the main consideration held in view by the directors. When competition is free, the consumer will get the best possible value for his money from the unrestricted private trader; but, in the case of monopolies in private hands, the State must regulate prices, and, rather than attempt any such regulation, it may be wiser for a municipality to manage the monopoly itself. This argument for municipalisation tells most strongly when the cost of the work is not easily estimated, and when questions connected with health, public order, morality, and convenience are concerned. Thus many advantages arise from the public management of baths, markets, cemeteries, and slaughter-houses. The case for public harbours is not necessarily so strong, and is much strongest when new works have to be initiated. There are special reasons for the public management of water-works; but, in this and in the above-mentioned industries, the considerations here dealt with do not point to any advantage from the direct employment of labour on construction, etc. When we come to gas-works, electric works, telephones, and tramways (except as regards

the care of the roadway), the case in favour of Municipal Trade becomes far more feeble; and the arguments here adduced give no support to the municipalisation of competitive industries.

V

ADMINISTRATION AND CORRUPTION

(1) In considering the general effect of Municipal Trade on local administration, we find here, as elsewhere, that there are opposing forces at work. Without doubt certain beneficial influences are brought into play by entrusting public bodies with trading enterprises. The sense of ownership generally felt by citizens when they see large works undertaken by a body directly elected by themselves must stimulate their interest in civic affairs; and this increase in their interest must react on the elected body, and thus produce beneficial results. Any increase of the responsibility thrown on any English governing body produces a corresponding tendency towards increased exertion; and municipal enterprise will in this manner tend to raise the tone of Municipal Councils. In London considerably more than half the voters will not, as a rule, even take the trouble to record their votes at by-elections, and it has been urged that they would be aroused from their apathy by an extension of municipal enterprise. Although many may doubt the wisdom of placing much reliance on the possibility of thus increasing the interest of the public in local affairs in the Metropolis, and their doubts may be even greater in the case of smaller towns, yet it can hardly be

denied that Municipal Trade does do something towards stimulating municipal activity.

(2) On the other hand, many harmful influences are set in motion by the public management of industries, and it remains to be considered whether the net result on municipal administration is, on the whole, beneficial or harmful. Some of the subjects here dealt with are of comparatively little importance; and these will first be discussed. But, in discussing them, it must be remembered that all the weights, big or small, required to make up a given total, must be put on the scales before we can tell whether the object weighed is or is not over weight.

(3) Anything whatever which creates a sense of injustice or discontent amongst citizens has a tendency to weaken the authority of the administrating body, and thus to produce certain harmful influences; and this is true, even if the acts producing the discontent are really just. Municipal Trade certainly creates a sentiment of dissatisfaction with the existing suffrage laws, which were framed without any regard to this extension of the functions of Local Authorities. In England, and in most democratic countries, the voting power of the individual is now the same whether he contributes much or little towards the public expenditure; and this condition of things is defended on the grounds that the rich suffer as little or even less than the poor from the taxation imposed, and that, as the maintenance of law and order is the main function of a government, all are equally concerned in its administration. Again, shareholders, and other corporate

contributors, have, as a rule, no voting power whatever, a condition of taxation without representation which is justified on the ground that, if not residing in the place, shareholders are not concerned with the primary functions of the local representatives and have no personal knowledge of them. Whether these arguments would or would not be sufficient to justify the English suffrage laws, if there were no Municipal Trade, will not here be discussed; but certainly they are illogical where it is widely undertaken. In many cases when money is raised to establish municipal industries, all citizens are certainly *not* equally concerned in the results; and the wider the extension of the field of municipal enterprise, the more probable will it be that some of the undertakings under public management will only supply a small section of the community. As municipalities are not bound to supply all customers when they municipalise any trade, it is even possible that a citizen may be forced to contribute to the undertakings, and, though a resident, may be refused a supply from them. Moreover, where an industry is established *for the sake of making a profit, and thus reducing the rates,* the desired results will affect taxpayers exactly in proportion to their contributions, and not equally, as may be the case with many questions affecting law and order. And, lastly, some risk must be incurred by all who, in the case of the failure of any municipal enterprise, may be called on to help to make good the municipal revenue, and shareholders in ratepaying companies are concerned in the results of Municipal Trade whether resident or not. Thus the arguments for "one "man, one vote," which depend on the equality of interests, become very weak if much public money is spent or risked in the municipalisation of trades which are not of very general utility; and, in these circumstances, the fact that all ratepayers have equal voting power then produces a sense of injustice.

(4) Thus taxation is more likely to be resented when the proceeds are devoted to trade purposes than when they are utilised in ordinary civic expenditure. "An examination of the rate-book of "a northern manufacturing town shows that four-"fifths of the rates are paid by one-fourth of the "constituency. This one-fourth includes colliery, "manufacturing, and railway companies," the majority of the shareholders of which have no votes, and "no power of influencing local opinion. The other "three-fourths consists entirely of working-people "occupying houses rated at £8 a year and under. "The rates of these houses are compounded for by "their landlords."[1] This condition of things raises very important questions, not only in connection with the justice of our methods of representation, but also as to the incentives to municipal economy. There are many who believe, as I do, that the unrated householder may fairly be said to pay his full share of the rates in an indirect manner in the long run and on the average; but, the fact that he does not perceive that he is contributing to the civic expenditure produces a marked tendency to public extravagance. This evil would become more serious if Municipal Trade became more widely extended. The unrated voter may clamour for cheap gas from municipal gas-works, or low tramway fares

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[1] "Traction and Transmission," Dixon H. Davies, October 1901, p. 97.

on municipal tram-lines; and, if prices and fares are reduced below a certain level in consequence of his demands, a loss must fall on the town, and that loss must be made up out of taxation. In these circumstances the unrated voter may perceive that this deficit is largely made up out of the pockets of the minority of rich ratepayers and unrepresented shareholders; but he will seldom realise that some of the burden falls back on his own shoulders. Municipal Trade will certainly increase the evil effects of the compounding system, and such considerations open up a wide vista of possible dangers.

(5) A very definite sense of injustice is aroused when Municipal Trade enters the field of competitive industry. In these circumstances the ratepayer may find himself forced to contribute, or, at all events, obliged to run the risk of such compulsion, in order to establish a rival to himself in his business, a competition from which he may suffer material losses. Railway companies frequently pay rates to Local Authorities managing extensive tramway systems, which now constitute their most formidable rivals as regards local traffic.[1] Representations have actually been made on behalf of associations of ironmongers protesting against the *sale and hiring out* of gas-stoves by municipalities, especially as the rates charged were stated to be such as to render competition impossible.[2] As regards the creation of a spirit of discontent against the civic administration, it is hardly an answer to urge that the retailers have lost but little by this

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[1] See *Times*, 2nd September 1902.

[2] M.T.R., Q. 2959.

municipal competition, whilst the private manufacturers of stoves have gained considerably, even if the latter assertion can be substantiated.[1] Moreover, municipalities may not in future limit themselves to the mere sale of accessories; and complaints have already been made against the exceptional authorisation obtained by the Sheffield Corporation for the *manufacture* of electrical fittings. No doubt, as the law stands, private companies managing gas and electrical works might manufacture fittings, and sell them at very low rates in order to stimulate the sale of their main product; and they might in this manner inflict loss on private rivals. The same complaint may, therefore, be brought against both public and private competitors; but such complaints against private competitors would not create any feeling of discontent against local administrations; for such competition would not subject any one to the risk of additional taxation. The dissatisfaction caused by the competition of municipalities, with their many advantages in the struggle for trade, is aggravated in some minds by the fact that Local Authorities are, as compared with private proprietors, especially protected from vexatious litigation.[2]

(6) Municipalities have certain powers of inspection, and exercise certain quasi-judicial functions; and, whenever these powers are used in ways which might possibly tend to the advancement of Municipal Trade at the expense of private trade, suspicions as to the impartiality of the Local

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[1] M.T.R., Qs. 3079, 3089.

[2] Public Authorities Protection Act. See "Traction and Transmission," November 1901, p. 163.

Authority will certainly be aroused. For example, the Corporation of the town of Blackpool, where the tramways are municipalised, refused to issue the necessary licenses for certain omnibuses, thus freeing their own enterprise from this competition; and, even if this obvious consequence of their action had in truth no influence on their judgment, it would be almost impossible to convince the omnibus proprietors of this fact.[1] Somewhat the same sentiments may be aroused when a municipality both owns the gas-works and is charged with the duty of testing gas-meters, as is the case in England. The mere creation of discontent against the civic administration is to be avoided; but in these cases far more objectionable results may follow. To create an impression that a public body is not impartial is the first step towards making it partial. For this reason alone there are grave objections to the combination of certain administrative and business functions in the same hands, which must often take place when municipalities undertake the management of trades; and other reasons for coming to the same conclusion will be given in a subsequent chapter.

(7) There is yet to be noticed another cause of possible discontent arising from Municipal Trade, though in this instance it is only aroused against neighbouring municipalities. This is, however, very objectionable. as it renders harmonious cooperation for various objects less probable. The private owners of tramways, gas-works, etc., are as a rule willing to enlarge the area of their operations so as to cover all profitable ground without

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[1] M.T.R., Q. 2609.

reference to civic boundaries; but the promoters of such enterprises would not generally find it worth while to establish works in outlying districts if they were excluded from the more profitable centres. Cities with municipal trades under their management are also as a rule willing to trade beyond their boundaries if such operations, undertaken as adjuncts to their own enterprises, would be likely to prove profitable; but usually they refuse to give to the Local Authorities of these outside districts any share whatever in the management. Taking the case of tramways as an example, it follows therefore that these outside districts may find themselves forced to face the following alternatives: (1) no tramways whatever; (2) the establishment of an unprofitable municipal tramway; (3) or the control of the tramways within their boundaries by the elected authority of another district. The compulsory establishment of Joint Boards nominated by the different Local Authorities concerned will be considered in a subsequent chapter; but, taking things as they are, it is obvious that large municipalities must acquire in such circumstances a great hold over contiguous districts, and that discontent is likely to be aroused against their too powerful neighbours in these outside areas.[1]

(8) The foregoing objections to Municipal Trade may not be held to be very serious; but they should count for what they are worth. Passing on to more weighty matters, it is urged that Municipal Trade throws a great amount of additional work on Local Authorities, and that this has two distinct evil consequences: it lessens the time which these

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[1] M.T.R., Q. 2419.

bodies can devote to their primary and essential duties; and, by increasing the unwillingness of busy men to devote their time to public affairs, it lowers the average administrative capacity of Local Authorities. Taking the latter objection first, it is stated in reply, that even in towns where there is much Municipal Trade, there are always more candidates than vacancies, and consequently there are plenty of men from whom to select representatives. No doubt, there are always plenty of persons willing to serve on the Councils of large cities; but this is not the case in smaller areas. And, even where it is the case, it is no answer to the argument now under consideration. That a man is willing to become a candidate is but a feeble guarantee of his fitness to become a Councillor. The man who has retired from business, or from whom business has retired, may be willing to offer his services in spite of the possibility of considerable calls being made on his time; whereas the younger, more successful, or more able traders or professional men may well be deterred from joining a Municipal Council on account of any increase in the work thrown on that body. It may be that there is already "a growing tendency on the part of leading "men in all professions and businesses to abstain "from taking part in the public administration "of our large cities"; and, even if this is not the case at present, it might well become true if additional duties were undertaken by Local Authorities.[1] Yet this is the class of men whose presence is most necessary, especially if Municipal Trade is to be undertaken; and their absence must lessen the business capacity of the Local Authorities.

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[1] "Traction and Transmission," July 1901, p. 205.

(9) As to the second of the above-mentioned effects of municipal trading, it is obvious that any new business must lessen the time available for the original duties of Local Authorities, unless either the total number of hours of work, or the number of representatives is increased; unless, indeed, it be possible to make better arrangements for the performance of the work than those existing at present. As to increasing either the number of hours devoted to civic work by councillors, or the number of elected representatives, the considerations suggested in the foregoing paragraph point to the conclusion that the result would be the election of administrators somewhat less efficient on the average than those now elected. As to the possibility of gaining much time by improved methods of work, this could only be done to any considerable extent where the methods of administration are now defective; and an increase of work might make any reform in this direction less probable, because it would tend to lower the business capacity of the body elected.[1] Lastly, it has been suggested that the number of representatives might be increased without evil effects if they were paid; but the objections to paying *moderate* salaries to men *elected* to perform technical duties is far greater than the objection to paying representatives whose main duties are to represent the wishes and grievances of their constituents, and to attend to the more simple matters of administration.

(10) On all these questions the evidence is

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[1] M.T.R., Q. 784.

conflicting. My own impression is that the evil effects of Municipal Trade, due to the influence of the extra work thus thrown on Local Authorities, is not likely to be very serious in large cities if this trade is not very extensively undertaken; but that a wide extension of municipal industrial enterprise would produce a marked deterioration in the business capacity of these bodies; and that, whether this would or would not be the case, the ordinary civic duties would, in these circumstances, be less efficiently performed.[1]

(11) If municipalities undertake trading enterprises, they must become involved in labour disputes and in questions affecting trades unions; and this is objectionable in many ways. Party spirit, which is always too apt to make itself felt in local affairs, will thus certainly be increased. Trades unions will endeavour to capture Town Councils for the sake of enforcing the rates of wages and the conditions of employment recognised by them both on Local Authorities, and, through them, on manufacturers in general. If municipal contests are fought on such grounds as these, the councils elected will certainly be not so well suited to perform their ordinary administrative duties; and the dislike of having to deal with such questions will prevent many suitable persons from presenting themselves as candidates.[2]

(12) A far more serious objection to municipal trading is the tendency to municipal corruption which the existence of a number of employees paid directly by municipalities must produce. It

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[1] M.T.R., Qs. 1548, 1566, 2086, 2458, 3119, 3475, 4117, 4261.

[2] See *Times*, 10th September 1902.

is obvious that there must always be a temptation for voters in the pay of a governing body to use their votes on personal and not on public grounds, and for the elected authorities to give away places as a reward for political services. These demoralising influences must always result from the direct employment of labour by a democratic government, and this danger has frequently been pointed out by prominent authors. For example, Mr Lecky, speaking of the pressure put on Members of Parliament to raise the wages of public employees, says that "it would be scarcely possible to conceive a "habit more calculated to demoralise constituencies "to the core, and more certain, if it spreads widely, "to destroy all sound patriotic feeling in the "nation."[1] With reference to the difficulty of dealing with a large class of public servants, the late Lord Farrer wrote that "no one who has watched the "pressure which the services can bring to bear on "Government through the medium of Members of "Parliament, will undervalue this danger."[2] And Leroy-Beaulieu urges, in the same spirit, that State railways in France would certainly be used as a means of electoral pressure and corruption.[3] In the regulation of our public affairs, these warnings have received but scant attention.

(13) The possibility of corruption arising from State-paid labour must be obvious to every one; and it is evident that the letting of houses and market stalls by Local Authorities gives them opportunities of using illegitimate influences over their tenants.[4]

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[1] "Democracy and Liberty," Lecky, vol. ii. p. 387.

[2] "The State in its Relation to Trade," T. H. Farrer, 1883, p. 108.

[3] "L'Etat Moderne et ses Fonctions," P. Leroy-Beaulieu, 1890, p. 132.

[4] M.T.R., Q. 2431.

But some of the more subtle evil effects, which are thus produced, are not so readily recognised. When the question is considered in the abstract, probably the majority of men who work for wages, or at all events a large minority, rightly or wrongly think that their services are not adequately rewarded; and, in consequence, demands for increase of pay often have, in the minds of the applicants, merely the appearance of demands for justice. An organisation to secure just treatment by a public authority is not readily condemned by public opinion; but an organisation amongst State employees, the main object of which is to obtain better terms of employment for its members, has at least the effect of encouraging the vote being given on personal grounds, and not with the view of securing the public welfare. Cases have already been recorded in England of municipal employees issuing an appeal to the electors in support of particular candidates at elections pledged to support their interests.[1] With the introduction of this habit of mind, the demoralisation of this portion of the electorate commences; for the question whether each demand is just or not soon falls into the background, and the vote comes to be regarded as something which should not be given except for value received.

(14) Statistics appearing in the *Labour Gazette* prove that there are frequent and great fluctuations in the rate of wages of workmen in private employment; and, if the wages of public employees are to be kept at the same level as private wages, they must rise and fall also from time to time.[2] But

[1] See *Times*, 10th September 1902.

[2] *Times*, 10th September 1902.

it can never be right to allow the decision on such questions to be in the slightest degree influenced by the threat, or even by the possibility, of votes being affected thereby. Weak candidates are, however, tempted to make promises on this subject, and such promises are demoralising both to themselves, and also, by suggesting the cash value of the vote, to the electorate. Votes can, no doubt, be won in this way, and the evil effect will be intensified where there exist organisations or agitations for obtaining better terms of employment. Associations of public employees, when not influenced by corrupt motives, are generally directed by the men who are most impressed by the insufficiency of the rewards for their services, and their demands will, as a rule, be carried beyond the limits of what is reasonable. When wages are falling, leaders of this type will be unlikely to determine on rational grounds whether it is wise to submit to a reduction. It follows that, if representatives regard the question merely from the point of view of what is right, an elected body employing labour must frequently find it necessary to refuse to grant the requests, and to act against the wishes of their employees, whether expressed individually or collectively, as is now often the case. The more conscientious the representative the more likely is he to take a prominent part in urging the refusal of unreasonable demands and thus to earn the displeasure and the consequent loss of votes of the municipal employees. Those who oppose excessive expenditure even on remunerative enterprises would, moreover, often share the same fate; for in the case where, for example, we hear of the advocacy of new baths being "regarded as an excellent bid for "the working-class vote in the district concerned," we may be sure that the conscientious opponent on economical grounds of such expenditure would lose popularity in proportion to his opposition.[1] In these ways a premium is placed on the return of the least scrupulous man or party, and this must in time produce a detrimental effect on the character of any representative body when there are many voters in its employment.[2]

(15) When there are many rate-paid voters, not only are high-minded men less likely to be elected, but they are decidedly less likely to seek election. Every one likes to fight on even terms, and the terms will not be even when an honest man is contesting a seat against an unscrupulous opponent in a position enabling him to exercise illegitimate influence over many voters. Moreover, all right-minded men must dislike the necessity of refusing applications from employees for higher wages or better terms of employment. Thus, as a rule, conscientious men will find both the election to and the service on a representative body more unpleasant if it has to deal directly with many employees; and the amount of unpleasantness which most men are willing to face for the public good is strictly limited. The evil effects of the unwillingness on the part of many high-minded citizens to undertake public duties is clearly seen in America, where it is widely felt; and it would be a national misfortune if a distaste for service on Municipal Councils became a common sentiment in England;

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[1] *Times*, 18th September.

[2] M.T.R., Q. 2475.

a result which the introduction of municipal trading on an extensive scale would certainly have some tendency to produce. No country in the world can compare with England as regards the wide powers conferred on Municipal Councils, combined with the high character of the representatives serving on them; and our exceptional position should not be imperilled except for very grave reasons.

(16) Moreover, the demoralisation due to the absence of high-minded men from elected bodies is often like a disease which tends to spread. Those who are desirous of influencing votes by any objectionable methods will dislike the presence amongst the leaders of their party of men more scrupulous than themselves, who may stand in the way of their schemes. Where party organisation is powerful, the existing members of a representative body have great influence in the choice of new candidates, and the disease will spread by the exercise of this influence to keep off the Council "faddists" or men "with no knowledge of business," as the more conscientious will be called.

(17) The foregoing paragraphs indicate some of the more subtle of the evil influences under discussion. Of the more obvious demoralising factors, the effect of patronage is the most prominent. Applicants of nearly equal merit will often present themselves in competition for a place, and in such cases the tendency of the majority to favour the man of their own particular political faith is difficult to resist. The habit of giving favourable consideration to the claims of party followers is very readily established, and the more opportunities there are for such political nepotism, the more people

will get used to the idea, and the less they will be shocked at it. This is the first step in the downward path leading to corruption. It is easy to pass from this state of mind to one in which it appears justifiable to "placate" the rate-paid voter because his vote is necessary to maintain a certain party in power; and this view may be advocated in the honest belief that the defeat of the party in question would be a public misfortune. Thus by downward stages we pass on to the spoils system, when, not only are all places filled by applicants of the approved colour, but men are turned out of their employment to make room for political partisans, and the principle of "the spoils for the victor" is openly advocated. The last stage in the degradation is when the voter is corrupted for private ends, and for the sake of filling the pockets of the elected representatives with public plunder—a stage hardly ever reached in England.

(18) It has been seen in a previous chapter that there is a tendency for municipalities to pay their officials lower salaries than those given by private firms, and this also is said to be a circumstance having a corrupting influence. Without doubt, discontent increases the temptation to dishonesty. In the United States, for example, the legal advisers to the cities are generally ill paid, and, in consequence, they are apt to pander to the great private companies with which they have dealings, in the hope of being transferred to more lucrative employment under them;[1] and somewhat similar influences are likely to be at work when trading concerns are placed under public manage-

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[1] *The Independent*, 6th May 1897, p. 570.

ment. Moreover, when anything like the spoils system exists, the uncertainty of tenure of municipal employees will increase their temptation to neglect the true interests of their employers, the public, and thus to fall under corrupt influences.

(19) When any reliance is placed on the votes of municipal employees, the party in power is naturally tempted to increase the number of such votes, and to favour the policy of municipal enterprise whenever an opportunity occurs.[1] In all circumstances, on the other hand, but especially when the administration is not pure, it is easier to municipalise any industry than to take the same business out of public control when once it has been placed there. The reason is that neither public nor private administrators like to abandon their powers; private owners, when their works are bought by the public, have in many cases, no choice about the matter; whereas a public body can only be made to abandon any enterprise by the force of public opinion, and that force will be ignored as long as possible if the party in power feel that the loss of opportunities of influencing the votes of their employees may injure their prospects of re-election. False steps in the direction of municipal enterprise are hard to retrace, and all steps in that direction should therefore be taken with especial care.

(20) The foregoing paragraphs prove that the disease of municipal corruption, in so far as it is due to municipal enterprise, does not tend to work itself out in time. We have just seen that, directly the elected representatives begin to rely on controlled votes, they will be tempted to adopt

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[1] M.T.R., Q. 3543.

the policy of increasing the number of voters in the pay of the public. This increase of patronage will increase the forces tending to corrupt the administration, and will thus diminish the chances of the elected body being composed of high-principled representatives; and the more unscrupulous the governing body, the more advantage they will reap from the attempt to control the votes of their employees. Thus we find ourselves in a vicious circle. Corruption tends to increase the number of controlled voters; and an increase in the number of controlled voters tends to increase corruption. The tendency is for corruption to go from bad to worse, and for the disease to become chronic.

(21) All that has been said thus far tends to prove that an increase in the number of voters in the pay of the community increases the danger of corruption. The replies that can be made to these arguments must now be considered. In the first place, it has been urged that the ballot is a complete protection to the voter, and that, under proper laws, no corrupt pressure can be brought to bear on him. It may be worth noting that, when corruption becomes very rampant, little reliance can be placed even on the secrecy of the ballot.[1] But, putting this aside, it must be remembered that it is the voter himself who becomes demoralised, and who therefore deliberately gives his vote on personal grounds and under corrupt influences. Against this evil the ballot can be no safeguard whatever. Moreover, influences may be brought to bear on rate-paid voters to make them promise

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[1] "American Commonwealth," Bryce, note on p. 202, vol. iii.

their votes; and, if such efforts are successful, they are certain, in spite of the ballot, to have a very considerable influence. It is, for Anglo-Saxons at all events, pleasanter to tell the truth than to tell a lie; and where, as is so often the case, there is great apathy concerning municipal affairs, a large proportion of the promises given will be kept without any consideration as to the questions really involved in the vote. The ballot is, in fact, very little protection against municipal corruption.

(22) Then, again, it has been urged that those who object on the foregoing grounds to the municipalisation of tramways or gas-works, for example, should logically also object to any other institutions, such as schools or the post-office, being placed under public control; for the corrupting influence of State-paid voters must be the same whatever their occupation may be. But if each case is judged on its own merits, the advantages being balanced against the disadvantages, there is nothing illogical in advocating the municipalisation of some services whilst opposing it in other cases. The existence of a powerful organisation of school teachers, one object of which is to influence Members of Parliament, has some evil consequences: for, without doubt, if it did not tend to make the teachers gives their votes on personal grounds, it would not be powerful. But the advantages of State schools are so great as to considerably outweigh this and the other evils of State education. In fact, the argument may well be turned the other way. There are many services which at present are wisely placed under State management: there are others which might very possibly be municipalised

with advantage; and, because this is the case, we ought to avoid State management in all doubtful cases in order to mitigate those evils which are likely to be more and more felt as the number of voters in the pay of the community increases. It has, moreover, been suggested that much the same demoralising influences as those arising from Municipal Trade are felt when any class of the community advocates a Parliamentary bill affecting their personal interests; and that no one proposes to prohibit such an advocacy. This is, however, mere special pleading; for the existence of an evil which cannot be prevented is no argument against trying to mitigate a similar evil which is under our control.[1]

(23) It may be urged in reply to the foregoing contention that, even if all the quasi-monopolies were municipalised, the number of voters in the pay of the community would not be sufficient to be a cause of municipal corruption; because this would only be the case if the number of corruptible voters was sufficient to affect the results of elections. But this contention is not sound. Close contests nearly always occur in a considerable proportion of the wards, and whenever the transference of a very small number of votes from one side to the other is likely to affect the result, the pressure of the rate-paid voter must have a demoralising influence. Where the number of rate-paid voters and those influenced by them is really not enough to turn the scale, the fact that this is the case cannot be known for certain till after the contest is over, and the desire to get all possible votes, even if the question of municipal employment is not prominently before

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[1] M.T.R., Q. 3755.

the electorate, will drag demoralising promises from weak candidates, and thus tend to lower their tone and the tone of the contest. A small body of disciplined voters, and an even smaller number of disciplined canvassers, like the Edinburgh Municipal Workers' Committee,[1] will, however, often be able to affect the result; and, for the following reasons, this is especially apt to be the case in municipal contests. Where there are only two well-marked political parties, there is always a tendency for the voters to divide themselves into two approximately equal camps; because the discontent due to the acts of the party in power tends to gradually increase the number of constituents favourable to their opponents until a swing of the pendulum occurs. Now, if municipal parties are organised on national party lines, it often happens that the discontent due to the action of the dominant party on the Council has not much effect in altering this approximate equilibrium, either because national affairs are more interesting, or because only a small fraction of the voters are *directly* affected by municipal misrule. Thus a corrupt party in a municipality may be able to keep themselves in power for a long time by controlling a small margin of the voters; or their hold may be so strong that they can only be turned out by their own methods, a defeat which would merely result in the advent to power of another corrupt organisation. It is, moreover, important to note that the number of voters in the pay of municipalities will not be small if the policy of municipalisation is pushed very far. In Glasgow the number of voters in the pay of the municipality probably amounts to about 7½ per cent. of the total electorate, and the proportion actually coming to the poll may be even greater, amounting, possibly, it is said, to from 10 to 18 per cent. of the total vote cast.[1] Since all voters in similar employment are likely to combine together to protect their interests, we should consider the number of State-paid rather than the number of rate-paid voters; and in Victoria, 8 per cent. of the adult male population are already in the pay of the public,[2] whilst, if our Government took over the railways, about 5 per cent. of the adult male population would thus pass into State employment.[3] These considerations are sufficient to prove that the arguments as to corruption cannot be neglected on the ground of mere numbers.

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[1] See *Times*, 10th September 1902.

(24) Our local institutions are, we may be told, nearly irreproachable, and, experience being the safest guide, the danger of corruption should not prevent us from adopting a bold municipal policy. In the foregoing discussion we have, no doubt, been considering some influences which have as yet been little if at all felt in the United Kingdom. But we must remember that, except in a very few towns, the number of rate-paid voters is small compared to what it would be if even the more moderate advocates of municipal enterprise had their way. Municipal Trade is, moreover, a new growth, and. as the evil influence of voters being in the pay of an elected body for which they have

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[1] M.T.R., Qs. 2772, 3446-3462.

[2] "Democracy and Liberty," Lecky, vol. ii. p. 467.

[3] "The Railways and the Traders," W. M. Acworth, p. 2.

votes has been shown to be cumulative in its action, we should not rely on past experience as a guide for the future. The attention which the public are likely to give to municipal works for some time after they have been purchased from private owners is another reason why corruption is less likely to arise in the early days of municipal enterprise; for public opinion is always a force tending to keep things pure, and it is only when it becomes languid that "jobs" are likely to pass unnoticed. For all these reasons, we must not build confidently on the existing purity of our local administrations in framing our policy for the future.

(25) Moreover, few will be bold enough to assert that our local administrations are perfectly pure, and, wherever the germs of corruption exist, there the disease may at any time break out. Candidates may now rarely "make a point of "bringing before the voters the special claims of "the employees of the Corporation" for better pay or shorter hours; but it is done sometimes, and this, as we have seen, is the first step in the downward path.[1] Jobbery with us may be infrequent and of a mild type; but jobbery does exist, and, with a great increase in the number of rate-paid voters, the danger of it slowly degenerating into absolute corruption would be very great. But, in any case, the evils glaringly apparent in the administration of American cities, where the people are of our own race, and where the institutions do not differ fundamentally from ours, makes it certain that we are not dealing with a mere

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[1] M.T.R., Qs. 3447, 1564, and 2058.

fanciful risk. From this point of view it may be as well to point out how deeply seated is this evil in the United States.

(26) As to certain great cities of America, their state of corruption is notorious, and we all know that "the public till has been robbed on a vast "scale, and accounts have been systematically cooked "to conceal thefts."[1] Mr Lecky considers that "the "New York Commissioners of 1876 probably understated the case when they declared that more than "half of all the present city debts in the United "States are the direct results of intentional and "corrupt misrule."[2] New York has been, perhaps, the worst of all the cities, but much the same tale could be told as to many others. Mr J. W. Martin, writing in 1899, tells us that "in Philadelphia "the Republican machine, under 'Dave' Martin, "remains so strongly fortified in power that the "Municipal League thought it hopeless to oppose "it at the last election, especially as the votes for "their candidates in the autumn campaign had been "miscounted by the cheating officials, and troops "of impersonators and repeaters had gone unmolested to the polls. There the city hall is still "incomplete, though a self-perpetuating commission "has spent upon it over £4,000,000. In St Louis "a commission which sat in the spring of this year "discovered that a head of the Street Watering "Department had received money from contractors "to allow them to work regularly below their contract, and had compelled them to abstain from "bidding for a certain district which he retained at

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[1] "American Commonwealth," Bryce, vol. ii. of 3 vol. edition, p. 521.

[2] "Democracy and Liberty," Lecky, vol. i. p. 99.

"double rates for a man of straw who represented "himself; it showed that an inefficient Excise Commissioner appeared to divide his enormous salary "with a State Governor and others who secured his "appointment; and that other officials and departments were equally dishonest. In Chicago during "last year the regulation that street-paving for "more than a small amount should be let by "contract to the lowest bidder was evaded in favour "of party friends by the arrangement that separate "bills for less than the limiting sum should be "presented for bits of the work, the same contractor "sending in a sheaf of accounts for one length of "street. Quantities of street repairing were paid "for and not executed. Saloons, gambling-houses, "and dens of ill-fame were protected by aldermen "and allowed full play, and the Civil Service "laws were violated with shameless contempt."[1] It is, however, hardly worth labouring this point further, for the evils due to the spoils system are now so widely known.

(27) With regard to cities of less than 100,000 inhabitants, Mr Bryce, it is true, tells us that they are generally as pure as an average English town.[2] It is, as this great authority says, extremely difficult for a foreigner to form a correct estimate when he has to rely so largely on hearsay evidence; but my impression is that this opinion as to the purity of the smaller towns is far too optimistic. There is a great deal to show that corruption has spread widely amongst all the local institutions of the United States. Mr E. W. Bemis, for example,

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[1] *Contemporary Review*, December 1899.

[2] "American Commonwealth," vol. ii. p. 521.

tells us of Hamilton, O. (17,600 inhabitants in 1890), that it "belongs to that pitiable class "which seems fortunately to include less than one-"third of the seventy-four public [electrical] plants "quoted in" the tables given by him "which allows "politics to handicap the success of public manage-"ment."[1] One other quotation from the same volume is perhaps worth giving to indicate the condition of things which American authors of a certain school are not, apparently, prepared to condemn as unsatisfactory. The words are those of Mr Thomas, and have reference to Topeka, a city which had about 31,000 inhabitants in 1890. "The standing "charge that political influence and jobbery does "and will destroy the efficiency of every city-owned "enterprise, does not seem to be substantiated by "the record of this plant. Although the tenure of "employment of the less skilled workers is, perhaps, "largely regulated by political considerations, yet the "engineer and the chief linesman and trimmer, who "is reputed to be especially expert, as well as the "superintendent, have each had steady and permanent "employment for a number of years, even through "different political administrations in the city. In "fact the present superintendent, who is a Re-"publican, was appointed by a Mayor who is a "Democrat. It is true, however, that the absence "of attempts on the part of political workers to "secure the position of superintendent might be "accounted for by the fact that his salary is so "extremely low, $1000 per year, as to offer few "inducements for their efforts."[2]

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[1] "Municipal Monopolies," E. W. Bemis, p. 274.

[2] *Ibid.*, p. 265.

(28) Surely no Englishman can read such statements as these without feeling the strongest desire to keep our existing purity, such as it is, free from the terrible evils of corruption and the spoils system. It must be acknowledged that any step which increases the danger of the introduction of this disease should only be taken if the advantages to be derived from it are conclusively proved to be of great importance.

(29) Many American authors, however, whilst fully admitting the evils of corruption in the United States, use this as an argument for municipal enterprise, not against it. For instance, Mr Albert Shaw, the well-known authority on municipal government, does not take the same view as to municipal management of labour in the United States as he does with regard to the adoption of the same system in Germany. "Where governmental authority is so firm, so intelligent, and so "ably and honestly exercised, it would seem to [him] "to be a matter of comparatively little moment "whether or not the Municipal Government carry on "as direct undertakings, certain so-called monopoly "services of supply." On the other hand, he tells us that "the simple fact is that there is hardly a "large town in the United States which has a "Municipal Government strong enough at all points "to deal advantageously with the representatives "of corporate [*i.e.* private] interest, when it comes "to making bargains. The wear and tear upon the "morals of a weak Municipal Government are greater "by far when it comes to the task of granting "[concessions]—that is to say, of making bargains "with private corporations—than when it is attempted

"to carry out a business undertaking directly on the "public account. Thus jobbery and rascality, wastefulness of public money, and bad results in the end, "are more likely to be the outcome when the contract system is used in street cleaning, paving, and "various other public works, than when the municipality employs its own men to clean its own streets, "lay its own pavements, and do its own public work "on direct municipal account."[1] Many other quotations in the same strain might be given; though it is probably going too far to state that the American "leading economists unite in charging" to the private control of street railways "the "general depravity in municipal administration that "is the recognised feature of the period from which "we are just emerging."[2]

(30) This view of the question is unfamiliar to most English readers, and to many it will not be at once apparent how municipal corruption springs from private trade. The concessions, or the powers conceded to private companies to enable them to lay tramways or to undertake other services requiring special rights, are often exceedingly valuable possessions, especially when granted without proper precautions. In the United States, municipal authorities are often bribed in order to induce them to grant such concessions,[3] with the natural result that the provisions necessary to

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[1] *The Independent*, 6th May 1897, p. 570.

[2] See on this subject, Mr J. W. Martin's article in the *Contemporary Review* of December 1899; "Municipal Monopolies," Bemis, pp. 174, 376, and 599; Mr Robert Donald, "Traction and Transmission," June 1902, p. 101; and Hon. R. P. Porter, "Traction and Transmission," August 1902, p. 226.

[3] As to a similar danger in England, see M.T.R., Q. 347.

safeguard the public interests are often omitted. The promoters, having succeeded in their corrupt enterprise, then proceed to feather their own nests; and, for the purpose of obtaining money both for this object and for the previous bribery, they raise far more capital than is required for the undertaking itself, or, in other words, they water their stock. Their next aim is to obtain profits sufficiently large to pay interest on this watered capital, and, in order to do so, high fares or prices must be charged. In these circumstances, competition with honest rivals becomes impossible, and rivals, whether honest or not, soon endeavour to enter the field. Concessions rendering competition possible are demanded from the Local Authorities; and then it becomes "necessary" for the original company, either to bribe the elected bodies concerned to induce them to refuse the requests of their rivals, or else to buy out those rivals, whose sole object is very often to be thus bought out. Private owners of concessions are, therefore, peculiarly liable to be squeezed or attacked by corrupt authorities, or by unscrupulous commercial filibusters; and, in consequence, they adopt every corrupt expedient to enable themselves to maintain their privileges. The votes of their employees are often influenced as systematically as are the votes of voters in the pay of municipalities under the spoils system, and are given solid for the political party on which reliance is placed for protection. In fact, we occasionally hear of a private company being described as the City's Boss, thus proving it to be the organising centre of corruption. The result of this condition of things is that, almost everywhere in the United States, private companies are continually using their influence with the Legislatures to safeguard their interests and to secure better terms, corruption is rampant, and the public interests are grossly neglected.

(31) Granted that Municipal Governments are corruptible, which will most surely keep a corrupt gang in or out of office—the private control of quasi-monopolies, or municipal trading? This appears to be the question in the minds of American authors, especially as regards their larger cities. We are told that "the constant struggle over rates and "regulation of the private companies owning con"cessions must answer for more crimes, corruption, "and scandals in New York City than docks, ferries, "markets, bridges, parks, and water supply com"bined," the latter all being under direct municipal control. But even if these premises are granted, it does not follow, as so often appears to be assumed, that even in America municipal trading is to be preferred to private enterprise. It is very probably true that the private control of concessions does produce the greater volume of rascality and jobbery; but merely to balance the amount of evil directly arising from the two sources is to omit one of the very most important considerations affecting the question. As to the injury done to the public by corruption in such cases as that of New York City, where half the public debts are said to be due to plunder, we must consider carefully whether the direct control of voters paid by the municipality or the indirect control of voters in the pay of private companies is the system which will give the

jobbers and thieves the greatest hold on the Government. The very first question to be considered is, which method of regulating these quasi-monopolies is that most likely to facilitate the campaign against corruption. In fact, the fundamental error in the American argument is the tacit assumption that their Local Governments will continue to be as corruptible as at present, and that it is almost useless to attack this evil by attempting to destroy its roots. It is nowadays only too common a mistake to endeavour to find a royal road by which the remedy for some social trouble can be reached by legislation, without recognising that, if the ultimate source of the malady remains untouched, a cure can never be effected. In all reforms our attention should be mainly directed to the constitutional origin of the disease, and not to the symptoms.

(32) All those who are unfamiliar with this subject will instinctively feel that the fact that American municipalities have grossly abused their existing powers affords a bad foundation for an argument in favour of adding greatly to the number of services directly under their control; and the obvious considerations which produce this first impression are in my opinion unanswerable. In a country where the appointment of additional municipal employees is technically known as "creating new voting stock," and where this voting stock is known to be used for corrupt purposes, can it possibly be right to increase the range of municipal activities with the object of decreasing this corruption?[1] The direct control

[1] "American Commonwealth," Bryce, vol. iii. p. 206.

of the voter, resulting from his being directly employed by the municipality, must give a corrupt gang the firmest hold, even if it does not enable them to obtain an amount of plunder as great as that which can be squeezed from private companies. This is the strongest as well as the simplest answer to the contention that the tendency to municipal corruption is an argument in favour of Municipal Trade.[1]

(33) Moreover the corruption in America, which has arisen from the private management of monopolies, should probably not be taken as the normal condition of things, because the temptations arising from this cause are greatest in new and growing towns. The funds necessary for the bribery of Local Authorities, and for the enrichment of promoters, are obtained most readily when concessions over growing districts are first granted. But when new concessions are less and less frequently granted, because the growth of towns takes place more and more in districts already allotted to the owners of existing concessions, the evils arising from this source of corruption will probably become less and less formidable. American authors may, therefore, have exaggerated the permanency of the troubles arising from private enterprise, and it may be true that the United States is "just emerging" from a period of "general depravity in municipal administration," though the emergence is slow and difficult to detect. It should also be noted that American cities are, on the average, increasing far more rapidly in population than is the case in Europe; and it follows from the above-mentioned considerations that

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[1] "Traction and Transmission," Hon. R. P. Porter, August 1902, p. 221.

the experience of the United States must not be quoted without making full allowance for this difference when used as an argument with regard to our own municipal institutions. Illegitimate transactions between Local Authorities and private proprietors concerning concessions might, no doubt, take place in England;[1] but, as a fact, private companies have been the source of very little corruption in Europe, and this tends to confirm the view that the difficulty arises partly from the extremely rapid growth of the population in America.

(34) But if there is some reason to think that corruption will diminish as time goes on if municipal monopolies remain in private hands, could the same forecast be made if municipal trading were largely introduced? Arguments have already been adduced which tend to show that the evils due to the direct employment of labour are cumulative, and tend with time to increase rather than to diminish; and, if these views are accepted as sound, the two systems form a marked contrast in this respect. Moreover, it can be shown that efforts to purify Municipal Governments are likely to have more permanent results in destroying jobbery in connection with private companies than in dealing with the evils which spring from the direct control of labour by municipalities. Representatives must seek the support of their constituents, and the desire to control the votes of rate-paid voters must remain as a standing temptation to use objectionable influences; and the use of objectionable influences for ends in themselves harmless is the first step towards corruption. With regard to the voters in the pay of private companies

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[1] M.T.R., Q. 347.

the case is different; for the employers, though they have the same opportunities of influencing votes, do not depend on their employees for the maintenance of their position. If a municipality becomes sufficiently free from corruption to make the private owners of concessions feel that they have little chance of using their "voting stock" for corrupt ends, all temptation is gone, and the organisations for controlling these votes will cease to be maintained—organisations which are not easily revived. Thus the existence of numerous State-paid voters tends both to render corruption more probable, and, if it arises, less attackable.

(35) These American contentions against private enterprise are, moreover, sometimes weakened by the admission that Civil Service reform is necessary before Municipal Trade can be extensively introduced with safety. With regard to direct employment by municipalities, it has, for example, been stated that, "Civil Service reform is a necessary accompaniment, "not only of this, but also of every other municipal "reform," and that "without it no one but profes-"sional politicians can seriously advocate the day "labour system."[1] But, when such admissions are made, the argument tends to become somewhat contradictory; for those who urge that Municipal Trade is necessary as a cure for corruption, cannot logically add that corruption must first be cured by Civil Service reform without which Municipal Trade would only make matters worse.

(36) The laws regulating the conditions to be imposed on private companies by the concessions

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[1] *Yale Review*, "The Day Labour and Contract Systems," J. R. Commons, vol. v. p. 445.

granted to them may have a most important effect in checking the growth of corruption, and this subject has received far too little attention in the United States. Concessions have been given "undeterminate as to time and with very slight provisions as to State or municipal control,"[1] and virtually no administrative control has in many cases been exercised over private companies, whilst the statutory limitations on prices and on capitalization have frequently been ignored.[2] Complaints have often been made in England that the control exercised by Parliament has greatly hampered the growth of such industries as electric lighting. This is, no doubt, true; but if the American regulations had been somewhat more strict, the tendency to corruption would have been considerably diminished, and the delay would not, I believe, have been too dearly bought. When concessions giving rights over public property are granted, it is obvious that the probable profits to the private owners should not be more than sufficient to attract the capital necessary for all legitimate expenditure, and that the surplus value should go to the public. If the promoters are prevented by suitable regulations from making vast sums of money, the temptation to bribery and corruption will, without doubt, be diminished. The demoralising influence of the immense value of the concessions now obtainable by corrupt speculators in the United States points to the advisability of lessening those prizes rather than to the attempt to purify municipal administration by adding to the functions of municipalities.

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[1] *Yale Review*, C. E. Curtis, vol. vi., May 1897, p. 19.

[2] "The Gas Commission of Massachusetts," J. H. Gray, *Quart. Journal of Economics*, vol. xiv., 1899-1900, p. 509.

(37) Although the methods of regulating the business of private companies owning concessions will be discussed in a subsequent chapter, it may here be noted that the troubles under discussion are due to the trades in question tending to become monopolies. Take, for example, the case of electric lighting in the United States. After one company had been given the right to lay its cables, a similar concession was not infrequently granted to a second company, with the result that the first company was squeezed into making large payments to the second company to buy it out. In the case of an industry in which free competition is possible, no restrictions should be placed on the granting of concessions; for in these circumstances a company would never water its capital by buying up a second concession granted to another company, because there could be no assurance that a third concession would not be granted. But if the industry is one, like electric lighting, where a partial monopoly is certain to arise from the granting of any concession, then it is better that no concession should in any circumstances be granted to a second company; for experience shows that, if two companies exist, they are certain to amalgamate, that competition is not maintained, and that the amalgamation opens the road to various kinds of mischief or even fraud. If concessions in the United States had been carefully drawn and had granted absolute monopolies for considerable periods of time over fairly large areas, the bribery and corruption in the United States would have been far less than it has been. If the maxim that competition should be either absolutely free or entirely forbidden had been followed, much evil would have been avoided.

(38) The possibility of municipal ownership without municipal management, and the advantages of such a system as regards the temptation to corruption, are also questions which have received far too little consideration both here and in America. It is true that jobbery as to leases might replace jobbery as to concessions; but the prizes would be far less valuable, and the number of employees paid directly by the municipality would be comparatively small.

(39) The corrupting influence of private enterprise in the United States has been discussed at some length, because in no country has private enterprise given rise to more municipal fraud and jobbery. It must be remembered, however, that municipal trading has been comparatively little adopted in America, and this alone is enough to explain why the amount of municipal corruption directly connected with it is far less than that directly connected with private companies. Moreover, the available evidence does not all point in one direction. For example, after the city of Philadelphia had been in full municipal control of its gas-works for more than ten years, they were leased to a private company, which then undertook the gas supply of the city. A great deal of controversy has, it is true, been aroused by this transfer, some objecting to it on the ground that the lease was obtained by fraud, whilst others declare that the abandonment of this municipal trade was the result of the general disbelief in city management, and the outcry raised at the hiding of a true loss by the declaration of a fictitious profit[1]

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[1] "The lease of the Philadelphia Gas-Works," W. D. Lewis, *Quart. Journal of Economics*, January 1898.

(40) It is no doubt unwise to speak confidently about the affairs of a foreign country; but the foregoing considerations appear to me to indicate that the extensive introduction of Municipal Trade would tend to make the fight against corruption in America more and more difficult as time went on. If this policy were adopted, the evil would become more permanently engrafted on to the municipal system; whereas time will be working on the side of the municipal reformer in attacking abuses connected with the quasi-monopolies in the hands of private companies, especially if proper regulations with regard to the concessions granted to them are generally introduced.

(41) Thus American corruption should not be quoted as a general warning against the private management of monopolies, and, as regards England, it appears to me that it is especially inapplicable. What we have to consider with regard to our own country is, not so much how corruption can be eradicated, but rather the best precautions to take to prevent its introduction. The corrupt influence of private companies on Municipal Governments is rarely exercised on this side of the Atlantic. It would be very difficult for the directors of gas-works, for example, to influence the action of a Municipal Council either by bribery or by the aid of the votes of their employees, and any such action on their part would be regarded as a gross abuse, a far greater abuse than the attempt on the part of a municipal candidate to catch the votes of the municipal employees by offering them better terms of employment.[1] Such promises, it will be felt, are not

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[1] M.T.R., Q. 1564.

always made with a reprehensible object in view: whereas there is no palliation for the corrupt action of directors. Judged solely from the point of view of the corrupting effect, the retention of quasi-monopolies in the hands of private companies in England is by far the less probable source of evil, though the evil, should it arise, might be very bad; whilst the direct employment of labour by municipalities is the more probable source of demoralisation. It is a balance of evils and probabilities; and it seems to me that if that balance be fairly made, there can be no doubt that the possibility of bribery and "deals" in connection with private enterprises should not be used as the basis of an argument in favour of municipal trading in England.

(42) To sum up the foregoing discussion with regard to corruption, it appears that any increase in the practice of municipal trading adds somewhat to the danger of corruption arising. Rate-paid voters may be demoralised by the temptation to give their votes on personal grounds, and not with the view to the common good. The patronage in the gift of a municipality must be increased by the purchase of any private enterprise; and patronage is demoralising, because it affords opportunities for the illegitimate reward of party services. The chances of scrupulous men becoming candidates, or, if they do stand, of being elected, are lessened by the extensive direct employment of labour by the municipality; and, as the purity of English public life is due to the willingness of men of high moral character to give their services to the State, this consideration tells strongly against Municipal Trade. Jobbery is at

present certainly not unknown in England; and, with the example of the United States before us, the danger of its degenerating into downright corruption ought to tell heavily in the balance when weighing the arguments for and against the municipalisation of any industry.

(43) No doubt, every case should be considered separately on its own merits. Where the advantages are great, there it is legitimate to run some risks; and the fewer the men taken into direct municipal employment, the less will be the risks to be run. In the case of water-works the number of employees is not great, and the danger of corruption should be allowed to tell but little in opposition to genuine considerations based on the demands of public health. Municipal tramways might be laid down, and the whole of the roadway kept in repair by the public, without great additions being made to the number of rate-paid voters; and no strong opposition should therefore be raised on these grounds to such a proposal. It is against any scheme, such as that which would result in the whole of the tramway employees being paid by municipalities, that the foregoing arguments tell with great weight. To add very greatly to the number of voters in the pay of the State in England would be a public misfortune.

(44) Thus, in considering the general effect of Municipal Trade on local administration, we have, on the one hand, its undoubted tendency to stimulate the interest of the public in civic affairs; and, on the other hand, the suspicion and discontent created against Municipal Authorities, chiefly amongst certain sections of the trading community; the evil effects of the increased labour thrown on Local Authorities;

and, above all, the increased probability of municipal corruption arising where there are many voters in the pay of the municipality. In fact, as regards the question of administration, the balance of advantages and disadvantages tells heavily against Municipal Trade.

VI

PUBLIC AND PRIVATE MANAGEMENT

(1) The question which is most frequently asked with regard to Municipal Trade is whether it pays or not, or, in other words, whether taxation is likely to be reduced or increased by its introduction. Before attempting to extract an answer to this enquiry from available statistics, it will be as well to discuss the circumstances which tend to make management in public enterprises either more or less economical and efficient than management in private trades. The comparison in England is usually that between Municipal Councils and Boards of Directors; and, in making this comparison, it is necessary to contrast the extent of the field of choice from which these bodies may be selected, the method of their selection from these fields, and the effect on the management of their business of the various influences brought to bear on the managers during the performance of their duties. In other countries, and in exceptional cases in England, the contrast presents itself in some other form; but the comparison between councillors and directors will lead to general conclusions applicable with but little modification to all comparisons between public and private trades.

(2) First, then, as to the field of choice from

which councillors and directors *may* be chosen. Artificial barriers affecting the selection have little real influence in the case of directors; for the difficulty of purchasing qualifying shares does not often actually prevent any one from joining a Board. On the other hand, the residential or property qualification of candidates restricts the choice of councillors to a material extent, especially in small towns where it often makes it impossible to include on the body managing a municipal trade any single individual having special experience in the particular industry in question. Corporations generally contain more members than Boards, and this, no doubt, widens the choice in the case of councillors; but this advantage brings with it the corresponding disadvantage that Corporations have to delegate nearly all their trading business to subordinate committees, thus introducing inevitable delays. No doubt, also, there are some men who prefer the unpaid duties of a councillor to the salaried position of a director. Many more persons, however, are influenced in the opposite direction, and it can hardly be denied that the search for candidates for seats on Municipal Councils is more often attended with difficulties than is the search for persons willing to serve on Boards. In fact, as compared with directors, the field of selection for councillors undoubtedly contains, as a rule, fewer really capable men of business. The restrictive effect of *residential* qualifications, whether legal or customary, is especially objectionable; for such a barrier makes it less probable that the experience gained in one locality will be transmitted to another; an important point when it is remembered that experience means in large measure the actual knowledge of blunders already committed, blunders which may be committed again without such knowledge. But, if the field for selection is wider, it is true that the motive which induces men to wish to join Directorates is, as a rule, merely the desire for remunerative work; whereas the would-be councillors are largely influenced by higher and more disinterested motives. The contrast is therefore between private trade, with a wide field for the selection of its managing bodies from amongst business men actuated by mere business motives, and Municipal Trade, with a narrower field of choice, at all events as regards business men, the majority of those willing to serve being, however, actuated by higher motives.

(3) Passing on to consider the methods of making the choice from amongst those willing to serve, it has been said that "the shareholders of an "ordinary public company are a widely scattered "body, knowing nothing at first hand either about "each other or about the business of the company; "whereas the electors in a locality are each other's "neighbours, and have the results of the working "of the municipality immediately before their eyes "every day of their lives. Consequently, the "electors in a locality are able and willing to exer-"cise far more influence than the shareholders in "a company."[1] Putting aside for consideration at a later stage the question whether the financial results of Municipal Trade can be said to be clearly before the eyes of the ratepayers at any time, this would appear to point to the probable superiority of Corporations as bodies for managing

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[1] *Economic Journal*, Prof. E. Cannan, March 1899, p. 2.

local business affairs. On the other hand, it might be stated that shareholders have no other object in view in the creation of their Board than the selection of the best men of business, and that their choice as regards this class being much less restricted, they should be able to secure a far more competent managing body. In order to consider the weight to be attached to such opposing claims as these, the actual working of the elections in the two cases must be examined carefully. As to directors, they are in truth practically never elected by the shareholders, being either nominated by the original promoters, or selected or co-opted by an existing Board. Herein lies both the strength and the weakness of the existing system of private trade. When a Board contains some members fairly well acquainted with the business to be managed, or when the business is in a flourishing condition, personal friendship, family ties, and neighbourly feeling, amounting almost to a residential qualification in the case of small towns, count for a great deal in the filling of vacancies; and the result is the election of a considerable proportion of incompetent directors. I wish I could see a remedy for this evil, or even a general desire to see it remedied. When, however, a Board does not contain experienced men of business, or when a want of strength in any respect is felt, there is little difficulty in adding directors of the right stamp; and in these circumstances, out of self-interest, a Board will usually strengthen itself in this way, a strengthening which will always meet with the approval of the shareholders. As to town councillors, on the other hand, however great the interest shown by ratepayers in the elections may be, it may make the selection of men specially qualified to manage a particular industry less rather than more probable, unless it is specially directed towards securing that end, which is seldom the case. Political considerations are generally all important, and where the political party which is not the predominant one contains within its ranks the majority of the men of business, the chances of an adequate number of such men being included in any body managing a municipal trade become very remote. Representative institutions ought to contain men of all classes; but some of these classes will contain few men useful for managing trades; because, with rare exceptions, it is only those who have had actual responsibility in matters of business comparatively early in life who ever become efficient business managers. The improbability of Local Authorities containing a considerable proportion of such men is not only due to the influence of party politics in local elections, but also to the fact that personal popularity and pleasant manners count for far more than business capacity at local elections.

(4) The method of re-election, and the consequent length of service of its members, is another important factor in determining the business capacity of any managing body. To introduce new blood is often useful; but to retain the services of men of business habits and experience for long periods is essential. Enough vacancies will occur naturally if members do not cling to office after age has taken away their vigour and powers of initiative; and, granted a reasonable age for retirement, it would

only be necessary that vacancies should be filled with regard to no other considerations than the conduct of the business. Both Councils and Boards, if regarded as business machines, are very faulty in these respects. Directors, however incompetent, are apt to be retained in their seats from personal motives, and Boards not infrequently drift into a state of inefficiency. Ratepayers, on the other hand, are extremely unlikely to take steps to prevent the re-election of a councillor simply on the grounds of his incompetence in matters of business. But councillors, unlike directors, are frequently replaced in the managing body on account of causes which have no connection whatever with their business capacity. Either they retire voluntarily after a short period of service, having nothing to lose by so doing; or a change of political opinion in particular wards leads to the rejection of willing and experienced councillors; or even without many changes amongst the councillors themselves, slight changes in the balance of parties in Councils lead to changes in the composition of managing committees. In short, if there is too much continuity in Boards, there is certainly too much change in Councils and committees of Councils. Thus, whether we look to questions connected with elections or with re-elections, we are evidently comparing the workings of two very imperfect machines; and it is little to be wondered at that results are very different at different times and places, and that, as a consequence, divergent opinions are held as to which system is best. At Birmingham, in the days of Mr Chamberlain's mayoralty, the Council was certainly an admirable business machine, its committees comparing favourably with any Board of Directors; frequently the Local Authorities and the Boards of the gas and water companies in the same locality are composed of much the same elements;[1] but, in my opinion, not only should we expect to see, but we do actually find that on the average Boards of Directors contain a decidedly greater proportion of efficient men of business than do either Town Councils or their managing committees.

(5) Even more important than the composition of these managing bodies is the effect on the way in which they manage their affairs of the various influences which are likely to be brought to bear on them in the performance of their duties. The most important functions of Boards, and of Councils as regards the management of their trades, are the selection of the enterprises to be undertaken, the appointment and control of the staff to superintend them, and all decisions on questions of general policy. The way in which each of these duties will be performed depends largely on the influences under consideration.

(6) In considering the commercial value of the enterprises likely to be undertaken by Local Authorities, the influence first to be considered is that arising from the fact that the same ratepayers who elect the managing body are also the consumers of the goods sold by them or the travellers on the tramways worked by them; an influence which crops up over and over again in all discussions on Municipal Trade. Councillors are no doubt anxious to protect the 'ratepayers

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[1] M.T.R., Q. 3126.

by whom they are elected from any increase of taxation; but they may be even more anxious to meet other and antagonistic demands made by their constituents. Taking the case of tramways as an example, few ratepayers will look closely to the possible effect on taxation of any further developments of existing tramway systems: whilst those voters who live on undeveloped routes will be keenly alive to the benefits which they would experience if cheap municipal trams were made to run past their doors. No wonder, then, that under such influences Local Authorities are found promoting tramway schemes in districts where they "cannot hope to get a profit."[1] This disregard of financial considerations may be justifiable where municipal enterprises are undertaken on the grounds of public health, order, or morality; but it cannot be denied that constituents will often use a powerful influence in inducing councillors to undertake trading enterprises which would be rejected by directors as not being sufficiently remunerative.

(7) Municipalities may also adopt views as to the selection of commercial enterprises different from those which would be adopted by private Boards because of the greater ease with which municipal capital can be raised. The Local Government Board puts certain impediments in the way of unwise municipal expenditure; but, when once that barrier is passed, municipalities can raise money for risky enterprises with precisely the same facility as they can for sound commercial concerns. On the other hand, the difficulty of raising capital

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[1] M.T.R., Q. 4142.

in private commerce increases with the risk to be run, and acts like an automatic governor in checking rash ventures in private trade.[1] As Municipal Trade has no such automatic governor, Local Authorities are certain at times to be found entering on fields where the private trader would not dare to tread.

(8) It is, however, possible that this same facility for raising money may sometimes act in the contrary way, and make Local Authorities excessively cautious. If a Town Council can borrow money at less than 3 per cent., many councillors will feel an instinctive dislike to investing the money thus raised in an enterprise which might fail altogether or which might bring in, say, 10 per cent. Such a dislike would be thoroughly justifiable; for the risk in Municipal Trade is thrown compulsorily on all the ratepayers and indirectly on nearly all the inhabitants, many of whom are not even voters; and this cannot be right if the risk of loss is great. Local Authorities might reasonably hesitate to act like the New York Metropolitan Railway, which "scrap-heaped a good "cable plant worth over a million sterling, because "it stood in the way of electrical progress";[2] and the hesitancy of councillors should not necessarily stand condemned even when subsequent events prove that the venture embarked on was sound from an economical point of view.

(9) This same possibly wise, but certainly uneconomical, caution may also be the result of the various other causes which always sap the initiative

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[1] M.T.R., Q. 2601.

[2] *Times*, 5th September 1902.

of representative bodies. Councillors have no personal motive to induce them to take the risks which almost inevitably accompany progress; and they are, in general, more afraid of losing their seats than directors, a fear which may lead to undue caution as well as to extravagance. Questions brought before Local Authorities may be unnecessarily dragged into the field of party politics, and not only does this lead to economical schemes being unjustly attacked, but also to an unwise caution from the fear of such attacks. Corporations, being larger bodies than Boards, generally find it necessary to have all proposals first discussed in committee, and then rediscussed in full council; with the result that the less well qualified and larger body may upset the decisions of the better informed and smaller body. Indecision may result even in committees from the want of a thorough knowledge of the industry to be managed. When the Corporation of Glasgow took over the tramways in 1894, the horse system of traction was maintained for several years. Mr R. P. Porter tells us that "naturally the business-"like American asks the question, Why did Glasgow "commit this act of folly?" and answers it by asserting that it was "because the Town Com-"mittee of twenty-five members could not agree "on a system of mechanical motor."[1] As a fact, companies now originate nearly everything that is new in industry, and Corporations seldom go beyond buying up the successful ventures of private proprietors. All history teaches the want of initiative of State institutions; and, unless Municipal Governments are an exception to the rule, Municipal Trade must often suffer from progress not being made at the right moment.

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[1] "Report of Special Committee on Street Railway Companies," Massachusetts, 1898, p. 213.

(10) Another circumstance which tends to make enterprises undertaken by municipalities less remunerative than those undertaken by companies is the existence of Local Government areas. These areas are often too small for business purposes, and are not divided from each other by what may be termed natural business boundaries. For example, the economy resulting from large central power stations for electric supplies is being more and more recognised; and where there are several small urban districts near together, and where each Local Authority undertakes to supply its own area, the result must be far less economical than if the whole of the districts were served by one body from one central station. Moreover, if different Corporations establish works in different areas, they are likely to adopt different systems in the case of telephones, for example, or different gauges in the case of tramways; and, wherever this is the case, subsequent amalgamations will necessitate costly reconstructions, with the result that more capital will be expended than would have been required had the whole been on one system from the first. Thus Local Authorities, who are obviously likely to confine their operations to the areas administered by themselves, have to face difficulties which are less felt by Boards of Directors, who are little influenced in originating their undertakings by artificial boundaries.

(11) There are, no doubt, two expedients by means

of which the area served by a municipal trade may be enlarged; that is by two or more municipalities combining together to manage some industrial concern in their combined areas, or by one municipality carrying its trading operations over its border into the territory of its neighbour. Both these methods must be briefly examined in so far as they are likely to affect the enterprises undertaken by Local Authorities. As regards the first alternative, that is the combined working by different municipalities, this necessitates the appointment of some body by the Local Authorities concerned to manage the whole business. Any Joint Board thus appointed will usually be less progressive even than a Corporation; for each of its members will know that all its decisions are liable to be *rediscussed* in the council nominating him, even when it is not necessary to obtain the actual *consent* of that council, a consent which probably would be required as regards the more important decisions. It is perhaps more important to note that combined trading of this kind will be rarely undertaken unless the Corporations concerned are forced to combine by Parliament. We have seen that different systems may be established in different areas; and, taking the case of tramways with different gauges as an example, if these systems are to be amalgamated, one locality at least must submit to the inconvenience of having its roads pulled up during the necessary period of reconstruction. Again, when proposed new alternative routes are not equally advantageous for the inhabitants of different Local Government areas, some localities preferring one, and some another, the selection of one of these routes must injuriously affect some one of the localities concerned. Local Authorities are apt never to "deal with these questions except as they are "concerned themselves with them";[1] and in such cases many municipalities would strenuously resist any change which might lead to their constituents being even temporarily incommoded; an obstacle to amalgamation which would not be experienced by private companies, because directors would consider the matter solely from the point of view of the economic working of the whole. Other causes, such as local jealousies, and the not unreasonable fear that great difficulties would be experienced in such joint operations in the allocation of capital to the different districts and in the sharing of profits and losses amongst them, will also tend to hinder the formation of Joint Municipal Trading Boards. These difficulties in the way of municipal amalgamations, as well as the inconvenience arising from unsuitable business areas, may be illustrated by the following quotations from "Traction and Transmission." The first deals with electric traction in Manchester and Salford. "These "two Councils are [1901] in antagonism over the "terms and conditions that are to apply when the "cars of one authority run into the district and on "the rails belonging to the other. The Salford cars "now stop on, or near to, the boundary of the "borough, and the public have to walk some 400 "yards before they can join the Manchester cars."[2] Again, "between the boundaries of Leeds and "Bradford there lies a strip of country 2 miles

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[1] M.T.R., Q. 1199.

[2] "Traction and Transmission," September 1901, p. 27.

"in width. Alive to the advantages of tramway "intercommunication, each Corporation desired to "extend its electric tramways to the boundary of "the other; but a difficulty arose owing to the fact "that" the gauges were different. The negotiation on the matter "having come to naught, each "Corporation promoted a bill in Parliament in 1899 "with a view to obtaining powers to extend their "tramways to the confines of the other city."[1] In short, private companies will experience less difficulty than Corporations in amalgamation, and Municipal Trade is therefore more likely than private trade to be confined to unsuitable areas.

(12) The difficulties attending combined action and the necessity for larger business areas have frequently led to large municipalities pushing their trading operations over their borders without giving any share in the management to the Local Authorities whose territories are thus invaded. This external trading can hardly ever be undertaken if the outside Local Authorities have already commenced similar operations themselves; and it is generally only possible where the invaded Local Government area is not large enough to enable the industry in question to be profitably established for the sake of serving it alone, and where, consequently, its inhabitants have practically only the choice between being served by the large neighbouring Corporation or not being served at all. But, as has already been remarked, a district which has to look to a representative body elected by another con-

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[1] "Traction and Transmission," W. Valentine Ball, November 1901, p. 162.

stituency for its supplies of gas, water, electricity, etc., is seldom thoroughly satisfied with the arrangement, and this external trading cannot be so progressive as it would be without this cause of friction. The effect is especially harmful in the case of tramways, which ought in many cases, both on social and on economic grounds, to be pushed boldly into the country, a policy more likely to be adopted by companies than by Corporations, because progress in private trade is little hindered by the difficulty of crossing boundaries. Thus for all the foregoing reasons—that is, because Local Government areas may be small and inconvenient, because of the expense of subsequent amalgamations, and because of the difficulty of managing trading operations by Joint Boards or in outside areas—we see that enterprises undertaken by municipalities will be less likely to be framed on business lines than those undertaken by private companies.

(13) If the estimated profits of a commercial enterprise are small, it is necessary to ascertain before undertaking it that the risk is also small; or, in other words, the magnitude of probable profits should be in proportion to the chances of loss. No commercial nation can advance without losses being constantly made; but, if the foregoing principle be adhered to, new ventures will, on the average, justify the necessary capital outlay. In private trade the difficulty of raising capital is more or less in proportion to the risks involved. Where the risk is considerable, directors may be induced by the possibility of large profits to face the dangers; and such a proceeding may be perfectly justifiable if the shareholders are fully

informed as to the risks, or if those risks are covered by reserve funds. On the other hand, we have seen that the influences due to voters being also consumers, to the facility of raising municipal loans, to the fact that unwilling ratepayers cannot avoid the risks involved, and to questions connected with Local Government areas, all tend in Municipal Trade to divorce this connection between profit and risk. If the matter be regarded from a strictly commercial point of view, it appears therefore on the whole that Corporations are less likely than Boards to invest their capital judiciously, because they are more likely to be cautious when they ought to be venturesome, or to be rash when they ought to be cautious; and, if this be the case, even if in other respects the management be the same, the average return on capital must be less in Municipal Trade than in private trade.

(14) Of the above-mentioned important duties which have to be attended to by bodies managing trades, the next to be discussed will be the appointment of the superintending staff; and in connection with this subject we have to consider the way in which the various influences at work in municipal and private enterprises are likely to affect the management in so far as it depends on this staff. The selection of the various employees is probably conducted on much the same lines in the two cases, favouritism always producing some injurious results. The main element affecting the quality of the candidates presenting themselves for selection is the pay offered, and here we clearly see the result of the different influences under consideration. Directors will be ready to increase salaries to any extent

so long as they believe that the gross profits will be increased to an even greater extent on account of the superior ability of the staff thus obtainable; and there is no reason to doubt that they can tell with fair accuracy what is in the true interests of their shareholders in this respect. As to Municipal Trade, on the other hand, the less business-like councils will find it more difficult to estimate with confidence the advantages likely to be derived from the employment of highly paid officials, and will in some cases altogether fail to recognise that there are any such advantages; and popularity amongst voters may often be won by councillors by opposing the award of large salaries, whilst few votes will thus be lost. The result of these conditions is that there is a distinct tendency in popularly elected bodies to give a lower rate of pay to high officials than that usually given in private trades; the more important the position, the more noticeable being this intention to "jealously control the increase of "large salaries."[1] We hear of socialistic councillors "working harmoniously and effectively together . . . "against any increase being made on officials' salaries "so long as the standard rate of wages was not paid "to labourers," without apparently in the least perceiving that the working classes, as well as all other classes, will suffer from any inferiority in the management of municipal trades.[2] The same influences are clearly noticeable out of England. In Canada "it is not the custom to pay *any* civic "servant such a remuneration as, for example, many

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[1] "London Progressive Platform," 1892; "Municipal Government in Great Britain," Shaw, p. 352.

[2] *Times*, 8th September 1902.

"bank managers obtain. . . . It thus happens that "private concerns pay less salaries to begin with, and "offer greater prizes in the end, than public depart-"ments."[1] In the United States "the executive "positions in private companies often command "better pay than similar ones under public ownership, "but in the long run," the same author adds, "this "is advantageous to the private works."[2] In many cases no doubt municipalities are wise enough to refrain from such unwise parsimony;[3] but it can hardly be doubted that, on the average, the salaries of high municipal officials are somewhat lower than the salaries given in private trades; and, unless we assume that directors are more ignorant of their business than councillors and are paying too large salaries in consequence of that ignorance, it follows that the net profits of municipal trades are actually less than they would be if higher salaries were given.

(15) One of the effects of the more bureaucratic *régime* of Municipal Councils is the tendency of promotion amongst the staff to go by seniority, and the consequent diminution in the probability of the best men rising to the highest positions. If any municipal employee is passed over, he will often be able to get some councillor to demand an explanation in the Council; and, if the reply is simply that the junior was promoted because the managing committee thought him the better man, and if, as will often be the case, no facts can be brought

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[1] "Municipal Monopolies," A. H. Sinclair, Toronto University Studies, p. 25.

[2] "Municipal Monopolies," E. W. Bemis, article on Water-Works, by M. N. Baker, p. 41.

[3] M.T.R., Q. 1990.

forward in support of this assertion, a perfectly satisfactory impression is seldom thus produced either on the Council or on the public. Proceedings leading to such public discussions are, therefore, avoided by managing committees and responsible officials, and the consequence is that, as a rule, it is only some generally recognised defect which prevents any official from rising to a fairly high position in any service controlled by a popularly elected body. In private trades the absence of occasions for public discussions certainly facilitates promotion by selection, and consequently makes for efficient and economic management. On the other hand, publicity may in some cases put a stop to jobbery, and it certainly tends to ensure the treatment of the staff being lenient.

(16) There is, moreover, some evidence to show that the tenure of office of officials in Municipal Trades is shorter than that of similar officials in private trades. It has been stated that the ablest employees prefer private service on the ground that that service is under men who are actuated by business motives only;[1] and, if this be the case, such a preference will no doubt make them more ready to leave the public service when new openings present themselves. It can, at all events, hardly be doubted that the tenure of office of all municipal employees is very uncertain in the United States, where the spoils system prevails. In a work written, as the editor tells us, "in more or less "pronounced sympathy with an extension of public "ownership," we learn that, as to the public waterworks of the United States, the records between

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[1] "Traction and Transmission," March 1902, p. 155.

1882 and 1896 give a support, though not so strong a support as the author had anticipated, to the allegation that there is a constant change in the *personnel*.[1] This certainly indicates a real danger to municipal enterprise, even if the evil results have not been actually felt in England. But, even putting aside this question of tenure of office, it appears probable that, although some advantages do, it is true, arise from the selection of the staff being in the hands of a public body, yet these advantages are outweighed by the accompanying disadvantages resulting from lower salaries and less elastic systems of promotion; and, consequently, municipal trading officials are likely, on the average, to be somewhat less efficient, and therefore in reality more costly, than the officials occupying similar positions in private trades.

(17) There are, however, other influences at work which tend to make the salaried staff of Municipal Trades, whether more efficient or not, certainly more powerful than similar officials in private trades. "The combined effect of the ad-"venture of local governing bodies into so many "kinds of municipal enterprise, of the great increase "in the duties and responsibilities devolving on the "better type of local representatives, and the ad-"mission to those bodies of so many individuals not "qualified to control the various forms of trading "which are undertaken, is to throw the real duties "of Local Government more and more upon the "permanent officials, and to create a municipal "bureaucracy."[2] Directors, receiving fees for their

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[1] "Municipal Monopolies," Bemis, p. 42. See also "L'Etat Moderne," Leroy-Beaulieu, pp. 65, 66.

[2] *Times*, 8th September 1902.

work, get into the habit of making their attendance at Boards, etc., come first amongst their duties; they are, as we have seen, more permanent in their tenure of office; they contain within their ranks a larger proportion of business men; and, for all these reasons, they are likely to exercise a somewhat greater control over their staff than councillors are generally able or willing to do.[1] It is, perhaps, doubtful whether directors trust their officials sufficiently; and if a municipal staff be thoroughly efficient, the greater power placed in their hands may not tend to make Municipal Trade less profitable. But other injurious consequences will result from any slackness in the control exercised by councillors over their salaried staff; and it is, at all events, certain that the bureaucratic tendencies which may thus be produced will not be counted amongst the merits of Municipal Trade by its advocates.

(18) With regard to two important matters, however, a municipal staff is generally less powerful than a private staff; that is with regard to both the discipline and the pay of the men employed. In disputes on both these subjects employers now often conduct negotiations with some trades union or other association of employees, and not directly with the aggrieved parties themselves. In many questions affecting discipline, and especially when organised bodies of working men take part in the dispute, councillors will perceive that they may win many votes by siding with the men; whereas, whether any official involved ought to be supported or not, hardly more than a vote or two will be lost

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[1] M.T.R., Q. 1415.

by throwing him over. Moreover, the mere fact that the dismissal of any man, whether on account of slack times or on a question of work or discipline, is liable to be discussed in public in the council may make the staff unwilling to proceed to such extremities, even in cases where that would be the right course to pursue.[1] When appeals are made by municipal employees to the managing committee, there is often some doubt as to whether that body will be influenced by political or other irrelevant considerations; and, whenever this is the case, the maintenance of discipline and the exaction of an adequate day's work become more difficult. If the committee look partly to the vote, the foreman will not look wholly to the work. Even the visits of councillors to the works, and the knowledge the vote-owning workman thus acquires that his complaints will be listened to not wholly without reference to that vote, is said to affect the authority of the officials in charge.[2] Where there is "constant interference by the members of "the committee with the idea, apparently, either of "securing employment on the job for their friends," or of winning popularity in any way, the results must be disastrous, and such extreme instances, even if at present very rare in England, serve to show what Municipal Trade might become if ever municipal corruption became more prevalent.[3] None of these influences are felt in private trade, where the workman, who is practically never a shareholder in the company employing him, is unable to bring any indirect influence to bear on the directors in his disputes with their staff; and we may conclude, therefore, that discipline will generally be somewhat more strict and work somewhat more economically conducted in private trade than in Municipal Trade.

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[1] *Times*, 16th September 1902; also M.T.R., Q. 3290.

[2] *Ibid.*, 10th September 1902.

[3] *Ibid.*, 18th September 1902.

(19) As to the wage of the municipal workman, there are many influences acting on councillors which tend to make them too ready to listen to any demands made by or on behalf of any of their employees, except those receiving high salaries. There is the corrupt desire to catch votes, a desire which expresses itself in such an election cry as, "Vote for me, and I will vote for an 8 hours' day "and 30s. a week."[1] An increase of pay may, of course, often be justifiable; but, when such objectionable platform promises as these are freely made, it is certain that the question whether a compliance with them would or would not raise the level of the pay of the municipal workman above that of his fellows in private trade will receive but scant attention. It is, in fact, obvious that municipal corruption will be attended by an increase in the municipal labour bill. But will not the private labour bill be lower even in the absence of any corrupt motives? Where we find, as at Southampton, socialistic councillors reported to be "piloting through, practically with no opposition, a rise "in wages for nearly all the Corporation workmen," we cannot assume that such proceedings are undertaken under any other influence than the mistaken belief that wages can be increased under a system of Municipal Trade without any one being injuriously

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[1] *Times*, 16th September 1902.

affected.[1] The ideas prevalent amongst working men are far more likely to be found influencing councillors than directors, and such ideas naturally favour the employee rather than the employer. For example, one of the reasons which have led trades unions to favour the same rate of wages for good, bad, or indifferent workmen, is probably that the more simple the demand and the less subject it is to possible exceptions, the more easy it becomes to fight a trade contest. But good workmen will refuse to work unless they get good pay; some good workmen must, as a rule, always be employed; and the adherence to this principle will consequently tend to raise the wage of the lazy workman rather than to pull down the wage of the efficient labourer; and the more completely it is adopted the higher will be the labour bill. It follows that, if the demand for a uniform rate of wages is less resisted by councillors than by directors, Municipal Trade must be more costly than private trade. Again, there is at present a fallacy very prevalent amongst English working men that a general limitation of output would enable employers to raise wages; and to whatever extent this belief influences Local Authorities, to a corresponding extent must it make them indifferent to the output per man in municipal works, or, in other words, to the cost of municipal services. Then, again, prices must rise and fall; and, when they are falling, stern necessity often forces private proprietors to lower wages; whereas, in Municipal Trade, where local taxation is available to cover deficiencies, councillors have no such rigid impediment preventing them from giving way to the various influences, including their own benevolent feelings, which make them wish to postpone all reductions in wages. Lastly, in the disputes between employers and employees, we now not infrequently find *associations* of masters treating with associations of men; whereas, in Municipal Trade, Town Councils are found standing alone, and are consequently in a weaker position than private employers.[1] Thus there are many influences besides those connected with corrupt intention which tend to make the municipal labour bill higher than the private labour bill.

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[1] *Times*, 10th September 1902.

(20) An impartial enquiry is, no doubt, much needed to determine to what extent these influences affect the relative level of wages in public and private employment; but that they have a considerable effect I have no doubt whatever. When private industries are municipalised, councillors frequently boast of the subsequent increase in the wages of the workmen employed on them; as, for example, when Lord Provost Chisholm stated that the Glasgow "Corporation have reduced the hours of employees "at least 25 per cent., while they have also increased "the wages practically to the same extent" on the tramways;[2] or when Alderman Sir Thomas Hughes, speaking of the employees on the Liverpool tramways, states that "their average earnings now are "about 5s. a week more than they were under the "Company."[3] It is less easy to prove that wages are higher in old-established municipal trades, and on that point information would be very valuable. But it can hardly be doubted that the conditions of

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[1] M.T.R., Q. 3583.

[2] Letter to the *Times*, 24th October 1902.

[3] M.T.R., Q. 2125.

municipal employment are less rigidly determined by the laws of supply and demand than is the case in private trade, with the result that there is a greater diversity of wages. The pay of the municipal workman can seldom be much lower than that of his equal in private industry, and, if it is less uniform, it must sometimes be considerably higher. Mr Charles Booth's work appears to confirm the belief in the want of uniformity in the terms offered by different municipalities; and he remarks, as to municipal sweepers, that they are in some cases "paid a wage which is no doubt economically "excessive."[1] It is, in fact, certain that the municipal labour bill will be considerably higher than the private labour bill for a given piece of work.[2]

(21) In considering the effect of these various influences, we have thus far been dealing with questions connected with the selection of enterprises, and with the employment of officials and workmen. Amongst the important duties of councillors and directors there remain their decisions on questions of general policy; and, in regard to these decisions, and indeed in regard to the whole subject, the main point to be remembered is that directors, unlike councillors, are elected by constituents who look wholly to profits, and who will consequently use their influence wholly in the direction of economy. On the other hand, as regards Municipal Trade, it would only be the rates paid by the very rich which would be at once materially affected by any change in the management of the municipal gas-works, for example; and, even in such a case, it would be

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[1] "Life and Labour of the People," Booth, vol. viii. p. 30.

[2] See chap. iv. par. 11, as to wages in the United States.

difficult for the ratepayer to trace the relief or increment of the burden of local taxation to its true cause. Whether this be the main explanation or not, few who have closely watched the working of Local Government institutions in England can fail to be struck with the scant regard that is paid to any one who advocates economy or retrenchment; and as regards financial results, the effect will surely be that Municipal Trade will be more costly than private trade.

(22) This difference in cost between private and Municipal Trade, which is due to the above-mentioned influences, will be less as the tendency of the trade in question to become a monopoly is greater; because private trade responds more readily than Municipal Trade to the stimulating influences of competition. Boards of Directors when managing monopolies are apt to be afflicted with the same "sleepiness" that is noticeable in Government departments; for, if they are sheltered from competition, energetic or apathetic action on their part can have but little effect in the way of increasing or diminishing sales, because trade cannot thus be attracted from, or diverted to, other producers. But although the claim that private trade is more economical than Municipal Trade is weaker in trades where the stimulus of competition is absent, it cannot be ignored even in the case of complete monopolies; for dividends can always be increased by economical administration. It is only when directors are prohibited by legal enactments from paying any increased dividend that they cease to have any incentives to economy; and, as it will be seen in a subsequent chapter that such rigid

statutory limitations on dividends need not and should not be imposed on private companies, this fact need not be considered in discussing the inherent differences between municipal and private trade. Thus, granted suitable legislation, directors will always be more subject than councillors to influences tending to make them economical, though the difference will be less in monopolies than in competitive trades.

(23) Another influence affecting the relative efficiency of municipal and private trades arises from the fact that, as regards municipalised industries, Councillors represent both the buyer and the seller, and that, as representing the buyers, they often have to control the inspection of the goods which they themselves supply as sellers. In this manner Local Authorities sometimes have imposed on them semi-judicial "functions, the "administration of which may put them in conflict "with their own interests";[1] as, for example, when attention is paid by a Council to the unfavourable reports of their own gas inspectors on their own works, it may lead to steps being taken which diminish profits, and which result in a reduction of the revenue falling into the municipal treasury. With regard to industries which tend to become monopolies, like the supply of water, gas, or electricity, the Local Authorities concerned nearly always have the right to inspect such goods and the power to insist on their being kept up to a certain standard, even when supplied by private companies; and, in thus inspecting the works of private proprietors, they will in no way be acting

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[1] M.T.R., Mr D. H. Davies, Q. 2609.

contrary to their own interests and will not be subject to any temptation to laxity. Popularity may, in fact, be won by councillors, by "making "a fuss" about the quality of goods supplied by private proprietors, and municipal inspection will, in such cases, be keenly supervised; whereas, on the other hand, a Council will, on the whole, lose rather than gain in popularity by attention being called to the reports of its inspecting department when they are unfavourable to its own manufacturing department, and these reports will, therefore, be less keenly attended to. Granted the proper powers, there is no reason why the municipal inspection of goods made by municipalities should ever be more rigidly conducted than the municipal inspection of privately manufactured goods; and there are, as we see, some reasons why it may be expected to be sometimes more lax. And the comparative laxity of inspection must sometimes result in the production of comparatively inferior goods. Municipalities have not now, I believe, sufficient power over private monopolies; but if suitable reforms were made, the fact that Local Authorities are solely concerned with the interests of their constituents *as consumers* when inspecting goods made by private companies would tell even more strongly than it does now in favour of monopolies remaining in private hands. Moreover, if municipalities ever undertake the management of many competitive industries, even more serious consequences might result from their playing the parts of both the inspector and the inspected. Local Authorities have, for example, frequently demanded the right to manufacture electrical fittings; and, if this demand were granted, it would not improbably be followed by a further demand to be allowed to inspect all electrical fittings in houses supplied with electricity from their municipal works; and this latter demand, if granted, would practically place in the hands of the municipality the power to crush out its rivals in this industry in the area under its control.[1] The existing powers of inspection of food, drugs, etc., though they are now beneficial in their results, might well be used by municipalities as a method of protecting their own manufactories; and in spite of all inspections such a limitation of competition would inevitably result in a deterioration in the quality of the goods obtainable by the public.[2] The case of the refusal of the Blackpool Corporation "to grant licenses to omnibuses which had hitherto "plied in the streets in competition with" their own trams has already been mentioned;[3] and such proceedings, whether justifiable or not, evidently have the effect of freeing Local Authorities from a stimulating competition in the conduct of their own enterprises. It has, no doubt, been suggested that the municipal police can be made to check any waste of water, or perhaps of gas, or electricity, more effectively when these commodities are supplied by the municipality. This may, perhaps, be some set-off against the above-mentioned disadvantages; though it suggests unpleasant visions of domiciliary visits by officials. Local Authorities may, in fact, gain something by making their police act as inspectors *on behalf of themselves as*

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[1] M.T.R., Q. 222.

[2] *Ibid.*, Q. 838.

[3] "Traction and Transmission," October 1901, p. 94.

manufacturers; but, whether this be so or not, it can hardly be denied that their inspection of commodities *on behalf of the consumers* will, on the average, be more efficiently conducted if they are not directly responsible for both the inspections and for the manufactory inspected.

(24) If inspections are to be effective, it is essential that the interested parties should have ready means of calling the attention of the inspectors to their grievances; and the question arises whether discontent is more easily made known, and the evils complained of more certainly remedied, when trades are under municipal or when they are under private management. As to the mere expression of discontent *on the part of the consumer*, there is no reason why the citizen should not grumble as loudly against the misdeeds of private companies as against those of Corporations; and, in the case of monopolies inspected by municipal officials, the reports of the inspectors to their Town Councils would, under both systems, afford an opportunity for criticism, a criticism which would probably be more searching when the works were in private hands. But as regards the discontent which the voter may or ought to feel if he regards himself *as a participator in the risks, profits, or losses of municipal industries*, it is easy to see that he stands in a very different position from that of the shareholder in a private company. The financial effects of Municipal Trade are not brought home to the voter with anything like the clearness or accuracy with which the financial effects of private trade are usually brought home to the shareholder by the regular or irregular payments

of dividends. Moreover, shareholders unintentionally acquaint their directors with their feelings of discontent in a way which is not open to voters in relation to the councillors elected by them. The shareholder can sell his shares; and, when discontent shows itself at all widely in this way, there is a drop in the value of such shares, which calls the directors' attention instantly to the fact. Voters, on the other hand, can only "sell their shares" in municipal enterprises by both selling all their property in the district and leaving the neighbourhood themselves; and this they would never do merely on the ground, for example, that they believed that the management of the municipal gas-works showed some signs of deterioration. And even if things did come to such a pass as to induce some voters to take refuge in flight, *all property* similar to that sold or quitted, *and not only the gas-works*, would then show signs of a fall in value, and such a fall in value would be proportionately less noticeable. The conduct of the gas committee would, in fact, practically never be influenced by voters expressing their discontent by leaving the neighbourhood; whereas directors are greatly influenced by the sales effected by shareholders—by those very shareholders whose apathy at meetings often appears so surprising. The marked influence of this silent, easy, but undesigned method of expressing discontent which is possessed by shareholders and not by voters, is often forgotten in this controversy; and this it should not be, for it has a powerful influence tending to stimulate energetic and economical management in private trade.

(25) But mere expressions of discontent are

useless unless they are followed by remedies. We have just seen that the voter, in his capacity as a "municipal shareholder," will be less likely than the company shareholder to express his discontent; and, as companies are quite as likely as Corporations to introduce economic reforms, it follows that discontent as to private trade is more likely to produce financial effects than discontent as to Municipal Trade. As to the discontent of the citizen regarded as a customer, taking first the case of competitive trade, consumers will always have at hand the most effective method of remedying their grievances whether the trade be municipal or private; for they can always go elsewhere for their supplies. But with monopolies this is not the case, and the strongest argument in favour of Municipal Trade is founded on the assertion that elected bodies can and will attend to the complaints of citizens most effectively when they themselves are the managers of the industry complained of. The evidence on this point, however, does not all tell one way; and most persons who have travelled abroad and who have watched the action of bureaucratic representative Governments will entertain some doubts as to the universal truth of the statement that State officials listen more readily than private employees to the complaints of citizens. Our Post-Office is admirably managed on the whole; but the rapidity with which it adopts reforms suggested by "outsiders" is not one of its strongest points. In the United States, in the case of the transference of the Philadelphia gas-works to a private company after being managed for ten years by the municipality, we find it stated that the "indifference, delay, and discourtesy" in the city gas offices was perhaps the real reason that many citizens were in favour of the change.[1] But no doubt the possibility, and in many instances the probability, of a monopoly being managed by Local Authorities solely in the interests of the public is the main argument for municipal enterprise; and, as regards each separate monopoly, the decision as to whether it should be allowed to remain in private hands should depend on whether the private proprietors can or cannot be controlled by the municipality so as to safeguard the consumers' interests to such an extent as to make the balance of argument, when all the other points are taken into consideration, turn against Municipal Trade. The belief that elected bodies will pay more effective attention to the grievances of the consumers of municipal manufactures, when it can reasonably be entertained, is, no doubt, an important weight on the side of Municipal Trade. But it can hardly be claimed that such ready attention makes for economy.

(26) As an argument in favour of Municipal Trade, it must not be forgotten in this discussion that councillors get no remuneration for managing the industries under their charge, whilst directors draw more or less considerable fees. In small companies these fees, no doubt, amount to a material item in the expenditure; but in large concerns their entire renunciation would often not increase the dividend paid to the shareholders by more than $\frac{1}{10}$th per cent. on the shares at their market value. Opinions probably differ widely as to the ultimate

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[1] *Quart. Journal of Economics*, W. D. Lewis, January 1898, p. 219.

effect of gratuitous management; but the majority of business men will, I believe, agree in thinking that it does not, on the whole, make for economy or efficiency in trading enterprises.

(27) Thus we see that not only are the enterprises undertaken by municipalities, on account of their scope and nature, likely to be less remunerative than those undertaken by private proprietors, but they are also, for various reasons, less likely to be economically managed; the greater keenness of shareholders as compared with voters as advocates of economy; the less searching inspection of monopolies managed by Local Authorities; the lower salaries, less permanent employment and more bureaucratic methods of promotion of municipal officials; the less rigid enforcement of discipline; and, above all, the higher pay of workmen on public works; these are all factors tending to produce this result. The underlying reason why there are so many considerations, some important some comparatively unimportant, all pointing in one direction, undoubtedly is that *a body especially designed for one purpose, namely, administration, however admirably it may perform the functions for which it was designed, is not necessarily suited to perform very different functions, namely, those of trade managers.* The more closely the duties which have to be performed resemble those of the private trader, the more likely are Corporations to perform them uneconomically and inefficiently; whereas the more necessary it is that attention should be directed to such questions as health, morals, and public convenience, as to which it is important that mistakes should be promptly rectified even at the expense of an increase in the

cost of production, the more likely are Corporations to meet the requirements of the community. It is useless to point to brilliant instances of good management, such as those probably afforded by Manchester or Glasgow, as proofs that the foregoing conclusions are erroneous; it is useless, because no one doubts that numbers of trading enterprises are also excellently managed by private proprietors; and such instances of good management in municipal and private trade prove nothing as to the average relative level of management in the two cases. We may "pay a high tribute to the excellent "management of their affairs by municipalities,"[1] and yet declare that, in matters of trade, management by private companies is, on the average, even better. No one accuses our Local Authorities of gross neglect. All that is here asserted is that, as the result of various unavoidable influences, the management of municipal trades will, on the average, be less economical and somewhat less efficient than the management of private trades.

(28) But even if it be admitted that the foregoing conclusions are the logical result of private trade being governed by that keenest of all incentives to economic administration, the hope of personal gain, it may yet be urged that, as long as trade remains in private hands, the public generally will have no interest in the advantages arising from its economic administration. As regards competitive trades, it is, however, quite obvious that economies sooner or later normally lead to proportionate reductions in prices, and that in the long run the public do thus benefit

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[1] M.T.R., Q. 191, Sir Courtenay Boyle.

by the economic management of private competitive trades; and, if municipal management is in truth less economic than private management, and if the services rendered are beneficial to the community, the argument in favour of Municipal Trade in competitive industries fails all along the line. As to monopolies, the case is different. Before deciding whether any such industry should or should not be allowed to remain in private hands, both sides of the question must be considered. As to citizens regarded as consumers, we must estimate, on the one hand, to what extent they can be safeguarded when the monopoly in question is managed by private proprietors; and to what extent, on the other hand, they will be injuriously affected by the less efficient management by Local Authorities in the case of Municipal Trade. As to the citizens regarded as ratepayers, we must estimate, on the one hand, to what extent they can be made to share in the benefits arising from the economic and efficient management of monopolies by private companies, and to what extent, consequently, will the shareholders in those companies, in studying their own interests, also be studying the interests of the community at large; and, on the other hand, taking the less economic management by Local Authorities into account, to what extent the burden of local taxation will be affected by the municipalisation of the monopoly in question. It is to this latter pair of questions—that is, to the financial effects of Municipal Trade—that we shall now turn our attention.

VII

RISKS AND GAINS

(1) The argument which is perhaps most frequently brought forward in favour of the policy of municipal trading is that it is possible to create a valuable source of public revenue by the municipalisation of various industries. It would at first sight appear to be a comparatively simple matter to confirm or to refute this contention by reference to the statistics of Municipal Trade. Before considering all the difficulties which are in fact met with in making any attempt to deal with the matter in this way, it will be as well to discuss the questions involved without reference to figures; and in this way we shall both clear the ground, and endeavour to ascertain what financial success is likely to attend municipal enterprises.

(2) It is important in this discussion, as in all others, to begin by getting a clear idea of the questions which have to be answered. How well have municipalities succeeded in their industrial enterprises from a financial point of view? To what extent are past results reliable as guides for the future? And, if taxation will be either reduced or increased by the municipalisation of any industry, to what extent does that fact

justify or condemn the adoption of that policy? These questions, which cannot be considered quite separately, must all be held in view during the following discussion; for it cannot be assumed that the municipalisation of any industry will be as successful or unsuccessful in the future as it has been in the past; and the proof that a profit or a loss has been made is only one amongst the many advantages or disadvantages which have to be weighed in the balance before any decision can be arrived at.

(3) As to the first of the foregoing questions, before asking whether a municipal trade has been financially successful or not, we ought in the same way to be quite clear as to the exact meaning which we intend to convey by that question; and, with a view to this discussion, it will be useful to state clearly what is here meant by the word *profit*. Taking the case of a municipality owning gas-works as an example, the Local Authorities concerned receive a certain income from the sale of their gas, and out of this income they have to pay certain expenses of management, including salaries, wages, and cost of materials; and if there is any surplus over after these payments have been made, that surplus is here called the *gross profit*. The gross profit is therefore equivalent to the annual dividend normally paid to the shareholders of a private company, *provided that the company has no interest on debts or debentures to provide for*. Accepting this definition, it becomes clear that the proof of a gross profit being made is not sufficient to prove that municipal gas-works are a financial success; for out of these gross profits,

the Local Authorities concerned have usually to provide for the interest on the municipal debts incurred for the building or the purchase of the gas-works, and for sinking fund charges for the redemption of those debts. If, however, there is a surplus after providing for repayments of principal and for interest as well as for the expenses of management, a surplus which will here be called the *net profit*, it is clear that this net profit will fall undiminished into the municipal treasury, and that the whole of it may be included in the public revenue. The word *loss* will be used in the opposite sense to the word *profit*.

(4) Here, again, it is necessary to insist on the fact that we are dealing with a *comparison* between two policies, and that both sides of the question must always be studied. We must consider, not only what are the receipts falling into the municipal treasury when an industry is municipalised, but also what those receipts would have been had the industry remained in private hands. This point is best illustrated by a reference to local taxation, though this is certainly the least important point involved. When gas-works are municipalised, the payment of rates on that property amounts merely to a transfer of money from one municipal pocket to another; and, even though a municipality had in fact *gained nothing whatever* by assuming the management of the gas supply, it might, nevertheless, be able to show a *considerable net profit* by omitting to charge rates against its own works. No one would defend a system of municipal account-keeping which permitted such a false impression to be created; but this illustration

makes it evident that the making of a net profit is not a proof of financial success in Municipal Trade. We want, in fact, another word; and, for the purposes of this discussion, the word, *gain*, will be used as meaning the *excess* of the net profit credited to the municipal revenue over and above the sums which, though not actually available or credited, would have been available and credited to the municipal revenues had the industry in question remained in private hands. The *gain* is, in fact, a measure of the financial advantage to the community of the municipalisation of any industry.

(5) In estimating the gain made by Local Authorities by their trading enterprises we must, therefore, compare the financial condition of each municipal trade with what would have been the financial condition of that industry had it remained in private hands. The questions involved will best be studied by considering what may be expected to occur when works are bought by a municipality, assuming that no change takes place in the price of the commodities sold, and being, of course, careful to see that this latter assumption introduces no errors. In these circumstances exactly the same gross income which was being received by the private company would after municipalisation be received by the Local Authorities concerned. Now this gross income may conveniently be divided into three parts according to the way in which it was being disbursed by the private company; namely into the amounts disbursed in (*a*) working expenses, (*b*) payments to the municipality, and (*c*) interest or dividends to proprietors or creditors. The total

disbursements of a private company may normally be divided under these three headings; and each of these divisions of the income received together with the corresponding disbursements will be considered separately in order to ascertain what is likely to occur on municipalisation.

(6) As to (*a*) the working expenses, whether they are high or low, depends on the management; and, if the conclusions arrived at in the preceding chapter be accepted, it appears probable that Town Councils are likely, on the average, to conduct their affairs somewhat less economically than company directors. Assuming that prices remained unchanged, we should thus far, therefore, expect to find on municipalisation that the income received was the same but that the disbursements were greater.

(7) As to (*b*) the second portion of the receipts of a private company which has to be considered, namely that disbursed in payments to the municipality, the question of local taxation has already been mentioned. English Local Authorities, no doubt, in nearly all cases intend to debit their municipal trading accounts with a sum equal to the full amount of the rates which would have been received from a private company if the works in question had been entrusted to its management. All that need here be said is that if municipalities do not charge the full rates against their own works in their profit and loss accounts, then the net profits as shown in these accounts must be diminished by the amount of taxation omitted in order to ascertain the true gain on municipalisation.

(8) But with regard to these payments to

municipalities, we have to deal with a point far more important than the rates, namely, the *rents* which are paid or which might be paid by private companies to the Local Authorities; the rents, for example, sometimes paid by tramway companies to the municipal treasuries for the right to run cars through the streets. The right to deal with the roadways, which tramway and other companies must acquire in order to carry on their businesses, constitutes a very valuable concession, and confers on its owner the monopoly of the trade in question in the district occupied; and any payment to the municipal treasury made in consequence of such a concession may be regarded as a rent payable for the monopoly thus granted. But the amount of the rent which a company would be willing to pay would depend on the terms of the concession. If high prices or fares might be charged, then a high rent could very likely be obtained. On the other hand, if sufficiently low fares or prices were insisted on in the concession, then no rent would be obtainable from the company, and the municipal revenue would be so much the less. But if, whilst enforcing these low fares or prices, the Local Authorities were at the same time to impose taxation in a suitable manner on the commodity sold or on the tramway travellers, and if they were thus to collect a sum equal to the rent foregone, then the municipal revenues, the company, and the consumers of the goods or the travellers on the tramways would all be affected in exactly the same way as if a higher rent had been extracted from the company, higher prices or fares had been charged, and no tax had been levied by the Local

Authorities. Thus these payments made by private companies are very similar in effect to indirect taxation, and they may be regarded either as taxation, levied indirectly through a company, or as rents payable for the monopoly rights conferred by the concessions granted.

(9) Something more will be said in a subsequent chapter as to whether such rents are or are not objectionable. (See chap. xii. pars. 9 to 11.) Here it is sufficient to remark that if the rent levied be large, then high fares or prices must certainly be charged by the company paying it, and then it distinctly partakes of the nature of a tax. Whether such a tax is harmful or not depends on whether it would or would not be possible to raise the same sum in some less objectionable way. I am aware that many who have studied this question, including some of the highest authorities of the Houses of Parliament, object to all such rents.[1] But, in my opinion, if levied systematically and in moderation, they are not only not harmful, but are in certain respects positively beneficial; for there appears to be no sufficient reason why municipalities should not receive a moderate return for all valuable concessions granted to private proprietors. Here, however, we can consider the two alternative policies of high fares and prices and low fares and prices without deciding which is best. If prices ought to be so low that no rent could be extracted from a private company, then no net profit equivalent to that rent could be made by a municipality managing the business itself, unless

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[1] M.T.R., Qs. 342, 711, and 1178.

indeed it raised the fares or prices. Nothing could therefore be gained in this respect and in these circumstances by municipalisation. On the other hand, if prices ought to be so high as to include a tax on the commodity sold, then such a tax should be raised under both systems by a rent from a company under the system of private enterprise, and as part of the net profits of the industry if municipalised. In this case also municipalisation will produce no effect on the public revenues as far as this portion of the income and corresponding disbursements of private companies are concerned. For example, Birmingham has now leased the right to run trams to a private company for a definite term of years, and the rents received do not appear in the returns relating to her remunerative enterprises. But if, as is probable, the Corporation will work these tramways themselves at the expiry of this lease, then this rental will disappear from the municipal accounts, and the *profits* of her municipal trades will be correspondingly *increased*.[1] If this should prove to be the only change which will take place when these tramways are municipalised, then Birmingham will *gain nothing* whatever by the transaction.

(10) It is to be noted, however, that if at the expiry of such a lease as that granted by the Birmingham Corporation, the concessions were leased again to a private company, the rent then obtainable might be either greater or less than that previously obtained. The terms of existing concessions make it probable that in such cases the rent obtainable on a renewed lease would be greater than that

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[1] M.T.R., Q. 1851.

originally obtained. But, be this as it may, obviously the sum to be deducted from the profits after municipalisation to obtain the gain is the amount of rent which a company would be willing to pay to the municipality *after* the renewal of the lease, not the rent actually foregone. This distinction is important because in many cases no rent is being drawn from private companies owning concessions at the time their works are bought by Local Authorities; as, for example, when gas- or water-works are municipalised. But, even in these cases, if a company would have been willing to carry on the works on the same lines as the Local Authorities are carrying them on, and also to pay them a rent, then this rent should be deducted from the municipal net profits to ascertain what the community has really gained financially as a direct consequence of the abandonment of the system of private enterprise.

(11) Besides rents and taxes, municipalities sometimes obtain other benefits from private companies owning concessions. Tramway companies are not infrequently obliged to keep part of the roadway in repair, or even to widen streets; and both tramway and electric-lighting companies often find themselves compelled at the end of a given period of years to sell their entire business to municipalities for less than the total capital sunk in these undertakings. In estimating the gains made by communities by the adoption of the policy of municipal trading, an allowance must be made for all these circumstances. It only requires care on the part of Local Authorities to avoid giving a false impression of the gains made in their municipal trades by not

charging rates against their works in the same way as if they were owned by private proprietors. It is, however, hardly possible to include in municipal accounts either allowances for the problematical rents mentioned in the preceding paragraph or for the circumstances now under consideration; for such allowances would be of the nature of very speculative estimates. Nevertheless, not only must a full share of local taxation be debited in the accounts of municipal trades; but an estimate must be made of the rents which might have been drawn from private companies managing the same businesses on the same lines, as well as of the money value of all the services which those companies might have been forced to render without a corresponding payment; and these estimated amounts must be deducted from the net profits made by any city to ascertain what is the gain resulting from the municipalisation of the various industries now under its management. In other words, a municipality will gain nothing whatever by transferring to itself that portion of the income of a private company which, if no such transfer were to take place, would be disbursed either in payments to the municipal treasury or in unpaid public services. As a set-off against this, if any of the cost of inspection, which would fall on the public revenues if the trades municipalised had remained in private hands, is now included in the cost of municipal trading, then that sum should be added to the net profits of Municipal Trade in order to ascertain the gains.

(12) Thus far we have been considering those portions of the gross receipts which, if the under-

taking was in private hands, would be paid away either in defraying the necessary expenses connected with the business, or in rents or other payments to the municipality. The remaining portion (*c*)—that payable in interest to the share- and debenture-holders—has now to be discussed; and the question is whether this sum, or any part of it, can be captured for the benefit of the public by the municipalisation of any industry. In considering this subject, we shall be dealing with two questions of considerable importance. The first is the risk inherent in every business enterprise; and the second is the statement frequently made that the profits of municipal undertakings are due to the low rate of interest at which municipalities can raise loans.[1]

(13) When a municipality undertakes to manage any commercial enterprise it may either start the business *de novo*, or it may buy up some existing undertaking. The normal procedure in the latter case, which will here first be discussed, is as follows. A Town Council raises money by loan, and, with the sum thus raised, a business, such for example as gas-works, is purchased from the private company which had hitherto managed it. As we are not now considering either the payments into the municipal treasury or the outgoing expenses, we must assume that before municipalisation the private company was not paying a rent or rendering any unpaid service to the municipality, and, moreover, that it was not so circumstanced that either rent or unpaid services could have been extracted from it; and also that after municipalisation the management becomes neither more nor less

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[1] M.T.B., Q. 1899.

efficient. And the question then is whether, in these circumstances, the community can gain any financial advantages by the municipalisation of such an industry.

(14) If a landowner raises a sum of money on mortgage from his banker at 3 per cent., and with it buys shares in some industrial concern paying 8 per cent. on the purchase money, he obtains an income of 5 per cent. on the money borrowed as long as that happy condition of affairs lasts. But if, instead of speculating in this industrial enterprise, the sum raised by him were invested in railway debentures paying 3 per cent., he would make nothing whatever by the transaction. The reason is obvious. The investing public makes an estimate of the risk attached to the industrial enterprise in question; and, if 8 per cent. can be made by buying shares in other concerns to which no more risk is held to be attached, then no investor will give for the shares in this industrial enterprise a price so high that they will bring him in a lower rate of interest than 8 per cent. The interest paid on the purchase money is, in fact, a measure of the risk as estimated by the commercial world. This is true for industrial shares and railway debentures, and the same kind of considerations govern the rate of interest which the banker demands for loaning out his money to the landlord. The banker, in fact, makes about the same estimate of the soundness of the security offered by the landlord that the debenture-holders do with regard to the security offered by the railway company; and, consequently, the landlord has to pay his banker about the same rate of interest that the

railway company has to pay its debenture-holders. Thus, if the landlord, when investing the money he borrows, does not accept a risk greater than that attached to the security he offers, he cannot hope to make any profit whatever by the transaction; and the greater the risk he accepts, the greater will be his possible gains, though, of course, the more likely is he to lose considerably.

(15) The foregoing explanation of speculative profits and losses will be readily accepted; yet comparatively few people appear to recognise that the purchase, for example, of gas-works at their market value by a municipality with money borrowed in the money-market is a transaction of a very similar character to that just described. This can, however, hardly be denied; and, if this be so, it follows that nothing could be made by the municipalisation of gas-works if the shares of the gas company were considered by the public to be as sound an investment as the town's debts. If that were the case, the rate of interest received by the gas company's shareholders would be no higher than the interest paid by the town to its bondholders; and for every £100 borrowed by the town, the municipality would have to pay away in interest as much as they would receive in profits for every £100 paid as purchase money. We have here for the time being *omitted the question of sinking funds;* but, putting this aside, and also all questions connected with municipal rent and management, *it follows that the municipal revenues can only be increased by a policy of municipal trading if there was some risk attached to the industries purchased.*

(16) The foregoing is, I believe, in the main. a correct statement of the case as regards the effect of risk on the profits of municipal enterprise. It may, however, be urged that the greater prestige attached to municipalities, which probably means the wider field from which they can hope to raise their funds, enables them to raise loans at a lower rate of interest than that which private companies have to pay, quite independently of all question of risk; and that this accounts in a measure for the profits made by municipalities with borrowed money. There is, no doubt, some truth in this argument; for the advantages thus gained by municipalities are somewhat similar to the advantages gained in this respect by large firms when buying out their smaller rivals. But, as regards the relative prestige of municipalities and companies, the effect is not likely to be so great as first impressions might lead us to think; for, as a rule, large municipalities have to buy up large and well-known industrial concerns, the smaller businesses being purchased by the smaller towns. Some of the Metropolitan Gas Companies, for example, are so well-known that there is but little margin for a rise in the value of their shares by becoming more widely known. No doubt, however, municipal prestige does make it possible for a municipality to gain something by municipal enterprise without incurring a corresponding risk, though I suspect the gain made in this way is but small.

(17) But the important point to note is that the main difference between the interest paid by municipalities and the interest paid on shares in private gas-works has nothing to do with prestige,

and is entirely dependent on the risks run. If a Town Council were to borrow money, and if it were to make the interest solely payable out of the profits made by the gas-works bought with the sum thus raised, then few will doubt that a higher rate of interest would have to be paid than would be necessary in the case of the ordinary municipal debts, the security for which is limited in no such way. Prestige certainly does not enter into the comparison between these two methods of raising municipal loans; and the difference between the interests paid in the two cases would be solely due to the possibility that the municipal gas-works might become less profitable in future. If gas-works were bought with money raised by a loan with the profits on the gas-works as sole security, the town would suffer no loss if, for example, gas should be largely superseded by electricity; the holders of the special municipal stock would, in that case, not receive their full rate of interest, and they would be the sufferers. Thus the excess of interest paid on a loan raised on the sole security of the gas-works over and above the interest paid on ordinary loans would best be regarded by the municipality as an insurance against any losses that might be made on this trading enterprise; for, by paying this excess of interest these losses would be made to fall on others. But, if the gas-works had been allowed to remain in private hands, in this case also the town would not suffer any loss from the business becoming less profitable, and it would be insured equally well against this risk. Thus, when any industry is municipalised, part of the profits which may accrue to the public may be said to be due to the municipality not insuring against a risk against which insurance is made as long as the works remain in private hands. If a business firm ceased to insure against fire, its profits would show a corresponding increase as long as no fire occurred. Could that firm instance this increase of profits as a proof of the wisdom of its conduct? Obviously not. But is it any more sound for a municipality to claim the whole of the profits of their municipal trades as a proof of the wisdom of their policy when part of that profit is due to the acceptance of a risk formerly guarded against? In fact, in quoting the statistical results of Municipal Trade, that part of the profit which should be regarded as an insurance fund against risks must not be included in the gains.

(18) If a firm of shipowners insures each separate ship by putting aside a sum just sufficient to cover the risk, and, if a large number of ships are thus insured, the total sum put aside in each year will, on the average, be the same as the amount which will be paid away in that same year in making good the losses sustained. In somewhat the same way, a large part of the net profits which municipalities may make on their gas-works, water-works, tramways, etc., should be regarded as an insurance fund to cover such losses as those which may be made on municipal piers, harbours, workmen's dwellings, etc. This fund should be put aside to cover any loss in the municipal enterprises undertaken by the same Local Authority; and, with this end in view, it may appropriately be utilised in paying off the muni-

cipal trading debts, and in thus lessening the chances of losses being made subsequently.

(19) We have seen that the gains made by municipalities in their trading enterprises resemble the gains made by a landlord investing in industrial securities money borrowed on a mortgage on his estate; and we should therefore enquire more closely to what circumstances any gains which may thus be made are in reality due. It appears to me that these gains may be said to be due either to exceptional knowledge or wisdom, or, in popular language, to luck or chance. The landlord's judgment of the value of the shares bought with the money raised on mortgage may be more sound and reliable than that of the business world, or he may know certain facts which are not generally known; and, if he have either of these advantages, he will often be able to buy shares at below what would be their market price if all investors were as wise as he, or if all the facts known to him about the industry were known to every one. In these circumstances his profits therefore might, in part at all events, be said to be due to his greater wisdom or knowledge. But if the landlord cannot claim any special superiority in these respects, we must next enquire whether, on the average, the interest he will get by investing his money in the shares of various companies, all with some risk attached, will be higher or lower, taking his losses into account, than the interest he has to pay on his mortgage. This is in reality the same question as asking whether it is the more or the less risky investments which on the average and in the long run return to the

investor the higher rate of interest. In order to answer this question we have to consider which of two motives acting on human nature will have the greater influence. Will the hope of a high rate of interest drive up the prices of risky investments so high that the average rate of interest obtained by the investor, taking his losses into account, will be lower than the rate he would obtain if he invested in less risky concerns and had fewer losses? If so, the speculator with borrowed money will lose in the long run. Or is the fear of loss so deterrent that those who do venture into the more risky fields really obtain a higher rate of interest on the average? If so, the speculator must gain in the long run. According to the best authorities, these two influences nearly balance each other, though the latter is somewhat the stronger; and the interest obtained from investments in risky undertakings is in the long run but very little greater than the interest obtained from investments in less speculative ventures. Thus if a landlord, with the average knowledge possessed by the business world, raises money by mortgage, and invests it in a large number of securities all involving some risk, he will find that in the long run he gains a little by the transaction; but it will be but a very little. It follows that if, on the average, he gains very little, then, as regards each individual transaction, it is not far from an even chance whether he gains or loses. About half, or a very little more than half, of his investments will be lucky, and about half, or a very little less than half, will be unlucky.[1]

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[1] See "Dictionary of Economics," Palgrave, *Aleatory and Risk*, by Prof. Edgeworth.

(20) Thus the gains of a private speculator may be said to be almost entirely due either to wisdom and knowledge *above the average* or to luck; and the same is true, I believe, of municipal enterprise as regards that part of the gains now under consideration. The discussion on public as compared with private management has shown that the relative wisdom and knowledge of the two parties concerned would be more likely to lead to too high rather than to too low a price being paid on the average for a business bought from private proprietors by a municipality, and consequently to a decrease in the public revenues rather than to a gain to the municipality in this respect. Even if the average inferiority of elected representatives as compared with directors of companies in matters of business be not admitted, few will be bold enough to advocate municipal enterprise on the ground of the special aptitude of our municipal councillors for speculation. We must not count on any financial advantage being thus obtained by their superior wisdom or knowledge; and, as regards the portion of the income of a private company which is disbursed in interest and dividends, these theoretical considerations appear to point to the conclusion that it is at the best almost a matter of luck whether a gain will be made on the municipalisation of any particular industry or whether the public revenues will be drawn on to make up a deficit.

(21) But if the gains made in any single municipal enterprise are so largely dependent on unforeseeable circumstances or on luck, it obviously follows that we must always endeavour to eliminate

this element by taking into consideration the results obtained in a large number of different municipal trades, and that it is useless to quote any single instance of success or want of success as a guide for future action. In the following chapter it will be seen that a good profit has, on the average, been made by the municipalisation of *gas;* and this fact, standing alone, should therefore be allowed to influence our judgment but very little as to the probable financial results of municipalisation *in general.* This may be admitted; but what is not apparent at first is that such statistical results tell us very little as to the wisdom of municipalising *gas itself.* No doubt, experience has proved that the chances of actual losses being made by gas manufacturers, public or private, is less than it was thought to be long ago; or, at all events, this was true until electricity began to make such great advances. But as the risks appeared to grow less and less, so both the chances of making a considerable profit and the chances of making a considerable loss by speculating in gas shares or gas-works with borrowed money diminished equally. It has, in fact, become far less probable that the public revenues would be either materially increased or materially decreased by the municipalisation of existing private gas-works; but whether the result would be an increase or a decrease will always depend on whether the estimate made by the investing public of the *future* of the gas trade is or is not too sanguine, and whether, consequently, the price of the gas shares is or is not too high. And of such questions councillors are now no better able to judge than they were half a century ago.

(22) There is, indeed, no little confusion with regard to the meaning of the word risk. Cities like Manchester, where the gas-works have been in public hands for many years, have made great profits by this industry, and some of the less thoughtful advocates of municipal enterprise appear to be influenced by the idea that success proves that in reality no risk was run. Profits, they would argue, cannot therefore be dependent on risk. It is true that to any one gifted with a prophetic spirit, there could be no such thing as *risk;* in commercial matters it would always be a *certainty* of profit or a *certainty* of loss. Risk, in the sense in which we are now using the word, is the *anticipation* of loss, without the actual knowledge of what the future will bring. In the early days of the gas industry there was a considerable amount of doubt as to its future, and Manchester, by accepting that risk, has been enabled to make correspondingly large net profits. Now many doubts have been removed; now there would be less chance of large net profits or large net losses in a similar undertaking; but, until we can look into the future with a perfect prophetic spirit, some risk will always attend municipal trades, and the results may in a measure always be said to be due to chance.

(23) Though we have thus far only been considering the purchase of going concerns by municipalities, the foregoing arguments are, nevertheless, applicable, with but little modification, to municipal trades in which the works have been actually built and started by Local Authorities. It is true that in this case any inferiority in business capacity on

the part of public officials has an even more harmful effect; for the initial design and construction of the works is then in their hands. On the other hand, some of the expenditure which must accompany the promotion of private companies will be saved when municipal trades are promoted by Local Authorities. As to the way in which the comparison is affected by possible payments by private proprietors into the municipal treasury, little further need be said. If the Local Authorities concerned, instead of building for themselves, had offered a concession to a private company enabling it to carry on the business in question, then that company could have been induced to pay such a rent as would have reduced their probable gross profits so as to make them equal to the normal commercial gross profits on enterprises involving the same risks. When a rent could have been obtained by a municipality without undertaking the management of the works themselves, the sum thus obtainable cannot obviously be included amongst the advantages resulting from that management. In other words, in discussing the gain made in any municipal trade, we must either deduct the estimated rent obtainable from private proprietors from the net profits, or we must take into consideration the purchase of works which are making not more than a normal rate of interest on the purchase money. No doubt, the risk is greater as a rule when works are first built, because of the uncertainty as to the growth of the town, and because of the chances of errors in estimating the cost of construction; and, consequently, in these circumstances, a somewhat higher estimated rate of interest is normally necessary to induce private investors to take shares. Municipalities which decide to build their own works rather than to wait to buy up a going private concern will be undertaking the more risky enterprise, and will, therefore, have a greater chance both of making a considerable gain in case of success and of adding considerably to the taxation in case of failure. But the reasons previously given for believing that these contingencies approximately cancel one another still hold good; and the average results of Municipal Trade will not differ materially whether the works are bought or built.

(24) When any town increases in size and population, any right granted by its authorities to a private company enabling it to retain a monopoly in its hands in perpetuity will as a rule tend gradually to increase in value; and this increase in value thus passing into the hands of private proprietors is often described as the "unearned increment." It has been asserted that Municipal Trade affords the best method of "capturing the unearned increment," and of making it pass into the public treasury; and, in order to deal with this argument, it is necessary to revert for a short while to questions connected with the granting of concessions to private companies.

(25) When Local Authorities grant to electric lighting companies, for example, the right to interfere with the roadways, it has been seen that the bargain then made should include regulations as to the price at which electricity is to be supplied to the public. For the purposes of illustration let it be assumed, in the first place, that a maximum price

only is named; although a perpetual concession of this type would in reality constitute a very injudicious bargain. Such a concession would amount to the city saying to the promoters of a private company that they might, if they liked, take the risks involved in selling electricity at the price named; that, if they did so, and if the anticipation of danger which created the sense of risk proved to be well founded, why, so much the worse for their shareholders; whereas, if the risks proved to be illusory, the company might reap the full results of their good luck. Terminable concessions are now, however, always granted to electric lighting companies, and, under them, the Local Authorities concerned retain the right at the end of a given period either to make a fresh bargain with the company, or to assume the management of the works themselves. Such a concession is equivalent to the municipality saying to the private proprietors accepting it that they must for a certain term of years take all the risks involved in accepting a perpetual concession; and that, if the industry should prove to be in a prosperous state at the end of the concession period, then the city would step in and reap the greater part of the fruits of their successful efforts. It is clear that this latter bargain would not be as attractive as a perpetual concession to the investing public, and that, in order to attract the necessary capital, it would have to be accompanied by the prospects of larger dividends in the immediate future. Thus Local Authorities must permit companies working under terminable concessions at first to charge higher prices than need be permitted under perpetual concessions; though, after the right to make a new bargain at the end of the concession period had been exercised, prices might very likely be reduced to below what they would have been had a perpetual concession existed.

(26) Something more than a mere maximum of prices has, however, as a rule been included in perpetual concessions granted in England; for they have generally contained clauses intended to secure to either the consumer or the ratepayer a certain share in the increase of wealth resulting from the industry in question becoming more prosperous. In concessions to gas-works, for example, there is usually a sliding scale of prices under which companies are forced to lower their prices with each increase in the rate of dividend paid to their shareholders. In the case of water-works there is usually a statutory limitation to dividends, which prevents the possibility of an increase in the value of the shareholders' property beyond a certain limit. And, lastly, when new capital is required by these companies, the shares issued have to be sold by auction, and the proceeds have all to pass into the capital account, a method of preventing the previously existing shareholders from gaining anything by the absorption of the premium at which shares might be issued. These are, however, but incomplete and unsatisfactory methods of dealing with the question. No concession can possibly make suitable provisions for all future contingencies; and it is most desirable that Local Authorities should be able by means of terminable concessions to make new bargains from time to time with the private owners of monopolies. Sliding scales of prices, etc., might be advan-

tageously included in these terminable concessions; but the effect of their being terminable would, nevertheless, be to make the private proprietor more anxious about the arrangements for the immediate future and less anxious about the distant future. Prices under terminable concessions, however carefully framed, will, therefore, normally tend to be higher in the earlier years and lower after a time than they would have been had the Local Authorities concerned granted a perpetual concession of a similar type in other respects.

(27) Passing on, after these preliminaries, to the question of the capture of the unearned increment by means of Municipal Trade, let us, in the first place, take the case of a municipality initiating its own works. In this case the community will reap the full benefit of any increase of profits due to an increase of population or to any other extraneous cause; but they will also bear the full weight of any losses that may be sustained from such causes. They will capture the whole of any increment, earned or unearned; but they will also capture the whole of any unearned decrement; and, if the word "increment" be interpreted in the same sense as the word "gain," the increments are, as we have seen, likely, on the average, to be nearly exactly balanced by the decrements. It is true that one circumstance was not taken into account in the foregoing discussion on municipal gains. The price of shares of private companies is decided by the risk as estimated by the investing public; and the investing public are apt to be too much guided in making such estimates by the prospects of the immediate as compared with the more distant

future. Thus, even if a municipality buys works at their full market value, the price paid will prove in the more distant future to have been a low one, granted a continued increase in population or other circumstances making for commercial prosperity; for this ultimate increase of prosperity will not have increased the value of the shares at the time of the purchase as much as it should have done even if it might then have reasonably been anticipated. It should, however, be noted that if industries generally are likely in the distant future to be less prosperous than they are at present, then the price paid for going works will be too high, and Municipal Trade will tend to increase local taxation in the future. Possibly we may be right in framing our policy on the assumption of a continued increase in the prosperity of industries tending to become monopolies in towns; and, *on that assumption*, the initiation of works by Local Authorities will enable them to "capture "an unearned increment" which would have passed into the hands of private proprietors, if, instead of the municipality undertaking the business, a *perpetual* concession were granted to a private company. But if a *terminable* concession had been granted, then the probable profits in the more distant future would not have entered into the question at all; and, by granting such a concession, the municipality would have captured the unearned increment exactly as well as by managing the works themselves.

(28) As to the purchase of works by municipalities from companies owning perpetual concessions, it is obvious that any increase of prosperity,

which had actually taken place before the purchase was made, would be indicated by a rise in the market price of the shares; and the unearned increment of the past would therefore pass into the hands of the vendors when they sold their business. Not only would this be the case, but the probable increase in prosperity in the more immediate future would also affect the price paid, and in this way the unearned increment of this more immediate future would probably be discounted and would pass to the vendors. But on the assumption that the business would continue to increase in prosperity for a considerable time, the municipality would, it is true, gain in the distant future by such a purchase; but this gain could be made equally well either by the municipality undertaking the management of the purchased works itself or by granting a *terminable* concession to the vendors or to some other company. What is essential to the capture of the unearned increment in this sense is not Municipal Trade but the abolition of bargains made in perpetuity with private owners.

(29) We have seen that in the case of monopolies the price of the commodities sold will be lower at first and higher afterwards if a perpetual concession has been granted, than they would have been had a terminable concession been granted. When a prosperous company arrives at that period of its existence when prices are higher because of the perpetual nature of its concession, it generally becomes apparent that, if the Local Authorities concerned had not found themselves "hampered" by a bargain of bygone years, they would have been able to force the company to sell at cheaper

prices whilst still allowing them to make a "reasonable" profit. In these circumstances the capture of this unearned increment is likely to be demanded; for it will only be but a small minority who will perceive what such a capture would really amount to. Putting aside the errors of judgment of the investing public in not taking the distant future sufficiently into account, no "unearned increment" would be gained by the purchase with borrowed money of the shares of a company owning a perpetual concession at the market price at which they would stand on the assumption that the bargain between the municipality and the company would continue to hold good; and any certain capture of the unearned increment must mean the municipality, whilst taking advantage of its bargain with private proprietors so long as the community were thus being benefited, arbitrarily violating it when it appeared that the tide had turned in favour of those proprietors. A gain can, no doubt, be made by a municipality by purchasing going works at less than their market value, but an increment so captured is certainly "unearned" by the community capturing it.

(30) Thus it appears that the unearned increment can always be captured by the granting of terminable concessions quite as effectively as by means of Municipal Trade; and that no honest arrangement for capturing it can be made without some corresponding increase of risk. The moral of this discussion is not that Municipal Trade is good, but that perpetual concessions are bad. They are bad because, as we have just seen, they put a temptation in the way of a community to capture

an unearned increment by breaking a bargain, a capture which may be supported by very plausible arguments; and they are bad for other reasons which will be considered in a subsequent chapter.

(31) In the foregoing discussion on the capture of the unearned increment, we have assumed that works will be purchased at not less than their market value. A very difficult practical question, no doubt, arises as to the extent to which the market price should regulate the purchase money in cases where it can be proved that the concession for a municipal monopoly has been obtained by fraud or corruption. As to all other cases, anything in the nature of confiscation would be both inexpedient and immoral; and it is only the question of expediency which raises the doubt as to what should be done in the case of improperly acquired concessions. It is usually very difficult for the original shareholders in private companies, and still more difficult for the subsequent purchasers of shares, to ascertain whether or not fraud or corruption was practised when the company was acquiring its rights; and the confiscation of fraudulently acquired concessions would tend to discourage investors in all such enterprises, whether conducted properly or not. It is the best policy for a municipality not only to be honest, but to maintain every appearance of honesty.

(32) Actual confiscation is not often advocated; but the suggestion is frequently made that the private owners of monopolies are making excessive profits, and that these excessive profits should not be taken as a basis for valuing their property for compulsory purchase. In many cases the high

rate of interest is merely nominal; as, for example, when a gas company issues new shares at a premium. When this occurs, the shareholders are in exactly the same position as if a lower rate of interest had been named, and a smaller premium obtained; and there is not, in such cases, a shadow of an excuse for confiscation. But it is no doubt true that the rate of interest calculated on the cash originally invested is often high; and, when this is the case, the shares are certain to stand at a premium in the market. This high rate of interest, and this premium resulting from it, may be due to the business having been well conducted; and it is but fair that a higher price should be paid for a well managed concern as compared with one which has been less ably conducted. The premium may also, as we have seen, be due to a diminution in the risk connected with the undertaking; that is to say, to the industry having proved to be more remunerative than was originally anticipated. In that case the premium is, in fact, a payment to the proprietors for having taken the risks involved in establishing the industry. If a public body did not care to face the risk of initiating or of buying up any commercial undertaking in its more hazardous days, it would now be a simple act of robbery on its part to buy out compulsorily the proprietors on terms which would deprive them of all remuneration for having taken these initial risks. Local Authorities must not expect at first to be able to get the safety which comes from allowing private owners to act as the pioneers of commerce and also later on to earn the same profits as if they themselves had been struggling against the difficulties always experienced in new undertakings. Lastly, the premium may be due either to "money having been cheap," or to the price of materials having been low, when the capital was first raised and expended. But those who consider it fair to allow such facts as these to count as a reason for cutting down the purchase price below the market level can hardly refuse to consider claims which might be brought forward in favour of industries, the shares of which are at a discount, being bought up at a price above that obtainable in the market on the ground that this discount was due to similar causes acting in the opposite direction. In the case of owners who have recently bought shares in private companies at a premium, it would appear to be even more inequitable to buy them out at the face value of their holdings; for these proprietors have in no way benefited by the rise in price of the shares. Thus in no circumstances do high rates of interests justify confiscation. Concessions, as we have seen, should always contain clauses regulating the price at which the property could be bought up by the municipality; but, when no such clauses have been inserted, the market value is the only equitable guide to the price to be paid at the compulsory purchase of property held under such perpetual concessions.

(33) In this chapter we have endeavoured to estimate the gains which municipalities are likely to make either by transferring to themselves the whole of the income and liabilities of existing private companies or by building works for themselves; the necessary funds being raised by municipal loans. It was seen, in the first place,

that any sums which were being paid, or which might have been paid, by private companies into municipal treasuries should not be included as a part of these gains; and that any expenditure connected with inspections, which would have been incurred by the public had the trades municipalised remained in private hands, should not be included in the costs of Municipal Trade. Making allowances for these facts, then it appeared that, *on the average*, the chances of a gain being made and the chances of taxation being increased in consequence of Municipal Trade would be about equal except for the following circumstances. The rate of interest paid by municipalities is slightly lower than that paid by companies *because of their greater prestige;* and the fact that some risk is always run in trading enterprises makes the average surplus of profits over losses somewhat higher than the interest paid on municipal loans; and for both these reasons some little gain is likely to be made by municipal trades. On the other hand, the less economical management of Local Authorities as compared with private proprietors makes it probable that taxation will be increased by the abandonment of private trade. Balancing these opposing tendencies, it appears probable that some municipal works will make large gains; that some communities will suffer from a considerable increase of taxation; whilst, on the average, there will be but little financial advantage or disadvantage to the nation resulting from the management of trades by municipalities. But, in this discussion, two assumptions have been made, neither of which is accurate. In the first place, nothing was included in the cost of municipal trading on account of sinking funds; and, if the foregoing conclusions are correct, it follows that it is probable that the whole of the payments made by municipalities into sinking funds will, on the average, have to be raised by taxation. In the second place, it was assumed that prices remained the same after the works had been purchased by Local Authorities. If, however, prices were lowered after municipalisation, this could only be done by decreasing municipal net profits; whereas, if prices were raised, then the net municipal profits would be correspondingly increased. Finally, it was seen that the hope of capturing the unearned increment gives no support to Municipal Trade as compared with private trade under terminable concessions.

VIII

MUNICIPAL STATISTICS

(1) In the preceding chapter, various theoretical questions connected with municipal finance have been discussed without the aid of figures, and certain theoretical conclusions as to the financial advantages which are likely to accrue to municipalities from their trading enterprises have been reached. Although results thus obtained by *a priori* reasoning are always unsatisfactory, and although it would be far better, were it possible, to decide all points at issue by reference to facts and figures, it is, nevertheless, not my intention here to deal exhaustively with municipal statistics. Not only is my main object to help others in studying for themselves the information available, a study which is almost useless if not accompanied by some theoretical reasoning, but far too much weight is usually placed on financial results in this controversy. The following discussion will, it is hoped, be sufficient to make this apparent; for it will be seen that, whether English municipalities as a whole have, or have not, gained anything by Municipal Trade, it can hardly be doubted that the effect on local taxation has been very small in comparison with the total local

revenues raised, and that, consequently, other points in this controversy are far more important than those directly connected with finance. It will be seen, moreover, that the information now available is sufficiently untrustworthy to make it uncertain which way the balance turns in weighing the direct financial results, and that certain important indirect financial results are of necessity wholly neglected in all municipal statistics.

(2) Several plans have been suggested for ascertaining the effect of Municipal Trade on municipal finances. The method which at first sight appears to be that most likely to produce reliable results would be to ascertain whether the municipalities which have spent most on remunerative works are rated higher or lower than those municipalities which have trusted more to private enterprise. Many pitfalls, however, are found in the path of this enquiry. In the first place, municipalities may, in comparison with private companies, habitually charge lower prices for the goods they sell; and, even if the rates in towns where Municipal Trade flourishes are higher, that trade may, therefore, nevertheless be financially beneficial to the community as a whole; or, on the contrary, rates may be lower, whilst the financial results may in reality be harmful. Here, however, we are only dealing with the interests of the ratepayers and not with those of the consumers, and all questions connected with price and quality will be considered in the next chapter. Municipal Trade may, moreover, put a check on private trade without itself increasing to a corresponding extent, and in this way local taxation may be affected without the result being rendered

apparent by this method of enquiry. It is nevertheless a valuable method, and the total amount of loans raised for remunerative work for English boroughs as given in the Stock Exchange Official Intelligence for a series of fifty-eight towns have been systematically examined by Miss Alice Lee, with the following results:[1]—Loans for remunerative work appear neither to be associated with high rates nor with low rates. But an *increase* of loans is nevertheless associated with an *increase* in rates; a correlation which may be illustrated by the following theoretical cases for towns of constant population:—

Case (i.) A town with no loan for remunerative work:—Increase of rates 6d. in the £ in 14 years.

Case (ii.) A town with the average rate of increase of loans for remunerative work:—Increase of rates in the same period —8½d. in the £.

Case (iii.) A town with twice the average rate of increase of loans for remunerative work:—Increase of rates in the same period—10½d. in the £.

This correlation may be accounted for by the fact that loans at first cause an increase of taxation, and later on a decrease of taxation, and that at the present date these two effects are neutralising each other, the net result being that taxation is now unaffected by remunerative loans. If this be the true explanation it seems probable that in future, when a large proportion of the existing debts are paid off, remunerative work will be associated with a decrease of taxation; though it would appear that the existing rapid increase of remunerative loans must lead to an increase of local taxation in the immediate future. It is, however, possible that this correlation between an increase of rates and an increase of remunerative loans is in part due to a correlation between the desire for Municipal Trade and either municipal energy or municipal extravagance. In fact, it can only be said that Miss Lee's very careful investigation indicates that Municipal Trade has at the present time no very material effect on municipal taxation in England.

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[1] A note on the Relation between Rates, Expenditure on Remunerative Works, and Rate of Increase of Population in Fifty-eight or more British Municipalities, by Alice Lee, D.Sc., will, I hope, shortly be published in the *Economic Journal.*

(3) Another method of attacking this problem is to examine the actual statistics of Municipal Trade.[1] The most complete and reliable information is to be found in certain Local Government Board Returns, issued in 1899 and 1902; information which is all the more valuable for having been subjected to much criticism by Sir Henry Fowler, Mr Row-Fogo, and others.[2] These returns deal with all "reproductive" undertakings carried on by municipal boroughs in England and Wales, including water-works, gas-works, markets, tramways, electric lighting, piers, quays, and harbours; the periods included being in the first return the five years ending 31st March 1898, and in the second return the four years ending 31st March 1902. The following table constitutes a brief abstract of the last of these two returns.

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[1] Readers who do not wish to wade through figures should omit the remainder of this chapter; for they will find the general results here arrived at summarised in chap. ix., pars. 19 to 30.

[2] "Municipal Corporations (Reproductive Undertakings)," Returns by L.G.B., March 1889, No. 88, and December 1902, No. 398: Sir Henry Fowler in *Jour. of the Royal Stats. Soc.*, September 1900; Mr Row-Fogo in *Economic Journal*, March 1901.

REPRODUCTIVE UNDERTAKINGS, ENGLAND AND WALES

Description of Undertaking.	CAPITAL. POSITION ON THE 31ST MARCH 1902.		ANNUAL INCOME. AVERAGE FOR THE FOUR YEARS ENDED 31ST MARCH 1902.						
	Total Capital Provided by Corporations.	Balance of Capital Out-standing.	Income.	Working Expenses.	Amount set apart for Depreciation.	Gross Profit.	Paid in respect of Principal and Interest.	Net Profit.	Net Loss.
Water-works	£56,913,016	£49,556,717	£3,186,965	£1,154,209	£27,266	£2,005,490	£1,915,362	£90,128	...
Gas-works	24,028,116	18,497,587	5,833,360	4,465,625	79,972	1,287,763	892,938	394,825	...
Electricity supply	12,508,997	11,192,779	1,136,155	662,559	19,970	453,926	465,633	...	£11,707
Tramways owned and worked by the Corporations	8,610,573	7,925,982	1,394,925	971,550	49,391	373,981	292,077	81,904	...
Markets, etc.	6,181,080	3,926,671	551,916	266,764	500	284,682	200,900	83,782	...
Baths and Wash-houses	1,988,310	1,232,659	135,692	188,351	...	loss 52,659	72,293	...	124,952
Burial Grounds	2,382,305	1,313,405	156,897	138,665	...	18,232	82,016	...	63,784
Working-class dwellings	1,253,592	1,090,310	40,030	23,512	...	16,518	43,496	...	26,978
Harbours, piers, docks, and quays	5,421,827	4,936,816	379,002	239,614	4,499	134,889	212,613	...	77,724
Other reproductive undertakings	713,946	466,506	137,047	88,495	10,760	37,791	22,418	15,373	...
TOTAL	£120,031,792	£100,139,462	£12,952,319	£8,199,345	£192,361	£1,560,613	£1,199,746	£360,867 Net Profit	

Note.—This Table differs from the original return in the following respects:—Tramways owned but not worked are omitted. The gross profits here shown are found by subtracting the working expenses *and* the depreciation from the Income. It is presumed that sums paid out of the accumulations of the sums set aside for depreciation are not included in the Working Expenses. If they are, the result is erroneous. The repayments of principal and the payments of interest are shown separately in the original.

(4) Thus we see that, as regards the more strictly commercial undertakings, the average annual net profit was £394,825 in the case of gas-works, and £81,904 in the case of tramways, whilst there was a net loss of £11,707 in the case of electrical works; and that there was a net profit of £360,867 on the total of all remunerative undertakings. If nothing more had to be said it would appear that this latter sum of rather more than a third of a million sterling is the average amount passing into the municipal treasuries, and being thus made available to replace some other source of revenue.

(5) If, however, the existing net profits as thus obtained are stated without any reference to what the net profits will amount to in the future, a very false impression of the results of Municipal Trade is given. Municipal debts must be paid off within a given number of years, and when that period has expired in the case of all existing loans included in this return, the sum of £4,199,746 now paid on the average for repayments of principal and interest will no longer be paid. If the circumstances connected with all these reproductive undertakings remain unchanged, the net profits made, on the average, would, judging by these returns, eventually amount to £4,560,613 a year; being the sum of the existing net profits, £360,867, and the £4,199,746, now payable, as interest, etc. It is to be observed that this future net profit, as it may be called, is the same sum as that entered in the abstract under the heading of "gross profits." If these remunerative undertakings had been allowed to remain in private hands, no such revenue as this

future net profit would ever have fallen into the municipal treasuries; and it is therefore obvious that not only the existing net profits of municipal trades, but also the probable future net profits, must be quoted when we are endeavouring to weigh the relative merits of public and private enterprise.

(6) Thus we have two estimated profits to deal with, the existing and the future net profits; the future net profits being the same as the existing gross profits. But, when we are asked to quote these profits as percentages, the question arises as to whether it is more useful to quote them as percentages of the total capital provided or as percentages of the outstanding debt. If, with Sir Henry Fowler, we calculate the profits, whether net or gross, as percentages of the outstanding debt, we shall obtain a figure which must fluctuate irregularly, decreasing suddenly when the capital on which the percentage is calculated is suddenly increased by large sums being borrowed, and increasing more or less steadily as the outstanding debt is diminished by the redemption of loans; a figure, therefore, which cannot be readily made available as a guide for the future when Local Authorities are considering the municipalisation of any enterprise.[1]

(7) Shall we then calculate the profits as percentages of the total capital provided? This is, no doubt, the most convenient method as regards gross profits; for it is to the point to know that

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[1] The outstanding debt is, I believe, moreover, a nominal figure, and depends on whether the loans were raised at a premium or at a discount. This point is, however, not an important one.

the gross profit on English gas-works (£1,287,763), for example, amounts to 5·4 per cent. on the total capital provided (£24,028,116). As far as it is legitimate to foretell the future by looking to the past, and as far as these figures can be trusted, we are thus justified in saying that municipalities may hope to make a gross profit of 5·4 per cent. on any sum they may expend on the municipalisation of gas-works; and that, many years after any such expenditure, when all the debts thus incurred will have been redeemed, and when this 5·4 per cent. will have, therefore, no charge against it, this is the sum which may be estimated as the net profit which will then be available as part of the municipal revenues.

(8) With regard to the existing average net profit, it must be remembered that this figure is obtained by deducting the charges for repayments of principal and interest on the debts from the gross profit; and it is, therefore, a figure which must change with every change in the amount of those charges. Very different sums from those now obtained as representing the net profits would probably be obtained by the examination ten years hence of similar returns to those now under examination, even if the remunerative works included were carried on precisely in the same manner as the existing works; because in that interval more money would probably have been borrowed, some debts would certainly have been paid off, and, even if the gross profits remained the same, different deductions would have to be made from them to ascertain the net profits. There is, therefore, very little to be gained by quoting net profits as thus

ascertained in any shape or form, whether as percentages of the total capital provided or as percentages of the outstanding debts.

(9) But, although existing net profits tells us but little, municipalities, considering the wisdom of municipalising gas-works, for example, are naturally anxious to estimate the net profit or loss they would be likely to make by such a proceeding. Accepting these returns as indicating accurately what will occur in the future, it has been seen that the gross profits in gas-works may be estimated at 5·4 per cent. on the total sum to be expended; and that, when all the loans are paid off, this sum will become the net profit. But the question is, what are likely to be net profits whilst the debts are being paid off? Or, in other words, in order to ascertain the estimated prospective net profit, what deductions must be made from this existing 5·4 per cent. gross profits on account of payments for interest and sinking fund charges on the outstanding debts. This, of course, depends on the rate of interest which will be paid on those loans, and on the number of years allowed for their redemption; and it is impossible to answer these questions without making various assumptions, all of which introduce possible sources of error. The amount shown in the foregoing table for repayments of principal and interest, £892,938, is 4·8 per cent. on the outstanding capital, £18,497,587; and if we refer to actuarial tables we shall see that with loans at $3\frac{1}{4}$ per cent., a municipality must pay 4·8 per cent. on its debts to redeem them in thirty-two years. Here we get an indication as to the conditions which on the average now exist as regards

gas loans, and the conditions which, therefore, we should assume as likely to exist in future. If, therefore, we assume that in future the whole of the money for the purchase of any gas-works will be raised by one loan; that 3¼ per cent. would be the rate of interest on the loan if irredeemable; and that the loan will be redeemed on the annuity system in thirty-two years; it follows that, out of the 5·4 per cent. of probable gross profits, the municipality in question will have to pay away 4·8 per cent. in repayments of principal and in interest, leaving a surplus of 0·6 per cent. In other words, judging by the past and accepting these calculations, municipalities should expect to make a profit on new municipal gas-works of a little over one-half per cent. for thirty-two years, and 5·4 per cent. for ever afterwards.

(10) In the foregoing calculation 3¼ per cent. has been taken as the rate of interest payable on municipal loans for gas-works in the future, although the actual rate of interest paid according to the returns under examination is a trifle higher. Such an assumption, of course, introduces a possible source of error; for it may be that the rate of interest will be either higher or lower in the future. If, therefore, it be assumed that existing conditions remain practically unchanged, no material error will have been introduced by this assumption. As to the length of time allowed for the repayment of loans, assumed in the above calculation to be thirty-two years, Parliament, or the Government Departments concerned, may alter it at any time; and no certain forecast on this subject is possible.

(11) Later on it will be seen that there are

many reasons why existing gross profits are an uncertain guide as to the gross profits which will be made in future in municipal trades. In connection with this subject it is interesting to enquire whether there is any marked difference between the profits made by industries which have recently passed into public hands as compared with those which have been managed by Local Authorities for many years. With this object in view, I have divided the English municipal gas-works into divisions, according to the dates at which the municipalities commenced managing them.[1] The result is as follows:—

Date.	No. of Works.	Average Annual Gross Profit, per cent. 1898-1902.
Previous to 1860	19	6·3
1860-69	9	5·9
1870-79	35	5·4
1880-89	11	5·3
1890-99	9	4·8

Those municipalities which commenced operations some time ago, have, no doubt, in many cases added largely in recent years to their capital expenditure on gas-works; and, if it had been possible to classify the works according to the mean date at which the capital was provided, it is not improbable that the difference between the profits made by the earlier and the later works would have been even more marked. If we assume as before that municipalities will have to pay 4·8 per cent. for thirty-two years on the capital provided, it follows that, accepting the above figures as a guide, the net profits on future municipal investments in gas-works will rise from nothing to one-half per cent. during the first thirty-two years, and that they will increase to over 6 per cent. when all the debts have been paid off. In any case, the above statement shows clearly that the later municipalisations are now less profitable than the works which have been managed by Local Authorities for many years.

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[1] The capital on which the percentages have been calculated for me by Miss E. Elderton is in this case the mean between the total capitals provided as shown in the Returns of 1898 and 1902; and in this way the error mentioned in par. 22 has been avoided. These figures are not, therefore, strictly comparable with the 5·4 per cent. given as the average gross profits on gas-works.

(12) In calculating the estimated prospective net profits we have taken the case of municipal gas-works as an example; whereas, in all enquiries with reference to Municipal Trade, we should, as far as possible, base our conclusions on average results. As to the other industries included in the Local Government Board Returns of remunerative undertakings, many of them, such as water-works, markets, piers, etc., though they may be worked *at* a profit, are not worked *for* a profit. This fact must, of course, be held in view in considering the figures, now about to be given, which have reference to these industries taken as a whole.

(13) In the foregoing abstract of results it was seen that the average annual gross profit on all the remunerative undertakings included was £4,560,613; a sum which represents a return of 3·8 per cent.

on the total capital provided, namely £120,031,792. If this 3·8 per cent. be accepted as the figure indicating the estimated gross profit which Local Authorities may hope to make on the average by their future municipal enterprises; and if 4·2 per cent. be taken as the percentage payable in order to redeem 3 per cent. loans in forty-two years, these being the figures indicated by the Return as being probably accurate for average results; then we arrive at 0·4 per cent. as being the estimated net loss which municipalities should expect to make during those forty-two years.

(14) Thus, if the foregoing figures be accepted as guides for the future, it appears that Local Authorities investing capital in gas-works may hope to obtain a net profit of about one-half per cent. on the money thus invested for the first thirty-two years after incurring the expenditure, and that this net profit would rise to about five and a half per cent. at the end of this period. As to money invested in future in many remunerative undertakings similar to those now municipalised in England, Local Authorities on a similar basis may estimate that at first the net profits made by them on their gas-works would be a little more than cancelled by the net losses made on their other undertakings, thus leaving a net loss of nearly one-half per cent. on the average; and that, after a period of forty-two years, they might hope to make nearly four per cent. on the average on the money thus invested. These conclusions are, however, obtained by considering all the undertakings included in the Local Government Board Returns without reference to the dates at which

the works were municipalised. If this element be taken into account, it appears that, as regards gas-works, Local Authorities ought to estimate that no net profit would be made at first, and that the net profit would increase to about one-half per cent. before the debts are redeemed, after which it would eventually rise to a maximum of over six per cent. Local Authorities should therefore, judging by analogy, expect to suffer a loss greater than the average during the first few years on the total of their investments on remunerative undertakings; an anticipation the probability of which I have, however, been unable to confirm by reference to the Returns.

(15) Thus at first sight it appears as if these returns gave us the information we are in search of. But is this so? In order to decide this point we must enquire to what extent reliance can be placed on these results as representing what has actually occurred in the past; what additions to or deductions from these net *profits* have to be made in order to obtain figures representing the *gains* of Municipal Trade; and to what extent these gains, even if accurately ascertained as regards the past, can be relied on as guides for the future. We shall see that each one of these questions opens up new and serious elements of doubt.

(16) As to the first of these questions, that is, as to the reliability of the Local Government Returns as representing actual results, Mr Row-Fogo has carefully examined the statistical records of English municipal gas-works as indicated by the easier return made in 1899, and he clearly proves that the net profits cannot be accepted as accurate.

The proof is best given in his own words. "The "application of the balances on revenue account is "as follows:

In relief of rates	£281,615
In reduction of price of gas	6,467
Public lighting of streets	1,423
Reserves or sinking funds, for purposes other than repayment of loans	55,816
Renewal and additions	7,640
Depreciation	11,152
Miscellaneous (income tax, repairs, repayment of loans, premiums paid on investments, etc.)	2,491
Not yet applied, or application not stated	29,716
Carried forward	11,126
Writing off deficits of previous years	6,941
	£414,432
Losses	3,119
TOTAL so-called 'net profit'	£411,313

Having previously pointed out that this total in reality coincides with the £370,340, the figure obtained by Sir Henry Fowler, because the £411,313 includes about £40,000 for depreciation and other items which are not included in the £370,340 net profit, he continues as follows:—"How much, now, of this can be considered as "profit? About the first three items there can be "no doubt, they are nothing else than 'profit "'divided.' They represent money paid out of the "concern to, or for behoof of shareholders—the rate-"payers. The next items are the points in regard "to which error has arisen. Reserve funds set aside "for various purposes are items of expenditure, not "profit. They are an alternative method for meeting "heavy charges which it is not desirable or not "possible to defray as they arise. Depreciation, as "explained, is the only charge deducted in the "official figures. Outlay incurred on renewals and "addition to plant is also never considered to be "profit, although it may be provisionally kept apart "for the purpose of considering how much must be "paid for out of revenue. Miscellaneous outlays "made up chiefly of income tax, repairs, premiums "paid on investments, bank interest, and so forth, "fall under the same head. They are losses, not "profits."[1] After stating that the allotment of remaining items is less obvious, he proceeds to make a careful estimate of true profit, and concludes that it should be reduced to £306,917, with an expression of doubt as to whether another £13,593 should not be deducted. For the details of this discussion, I must refer the reader to the original paper.

(17) Some of the foregoing observations appear to be not quite unassailable. On the one hand, if, as we shall see later, these statistics are almost worthless for the purposes of this enquiry unless the relative prices charged by public and private enterprises are at the same time taken into consideration, it seems to be hardly legitimate to include in profits money spent in the reduction of the price of gas. On the other hand—and this is a far more important point—money placed in reserves and expenditure on additions to plant, etc., is, as a rule, balanced in private business by an increase on the capital account; and when no fresh capital is being raised, these sums may, in fact, be equivalent to money which is taken out of the gross profits and invested in the business,

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[1] *Economic Journal*, J. Row-Fogo, March 1901, p. 14.

and which, therefore, does not go to increase the dividends paid to shareholders. It appears to me that it would be desirable to follow the same plan in municipal accounts; that is to say, to class these sums as profits, and to make annually a corresponding addition to the "total capital provided." As, however, it would appear that this latter adjustment has not been made in past years, and as this expenditure might perhaps be more properly included under depreciation and current expenditure, there is not much to be said against Mr Row-Fogo's method of dealing with this question. Thus, on the whole, it seems fair provisionally to adopt £307,000 as being the average annual net profits made by English municipal gas-works between 1893 and 1898 on the ground that this figure represents the best attempt yet made to extract the truth from the official figures; and if this figure be accepted as accurate, both the gross profits and the net profits on gas-works during those years must be reduced by about 0·3 per cent.

(18) Unfortunately, no similar examination has been made of the statistics of all the remunerative undertakings. But the same author tells us that an examination of numerous borough accounts led to the detection of "a considerable number "of errors both in principle and detail,"[1] the most important being with reference to entries regarding stocks in hand. But, even if it be admitted that mistakes such as these detract "very seriously "from the value of the official statistics," yet it may, nevertheless, be true that they do not materially affect the average results obtained; and certainly we

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[1] *Economic Journal*, March 1901, p. 19.

have no means of knowing in which way they tell. But as to many other reasons for doubting the reliability of the average results obtained from municipal statistics, though it may be true that we cannot estimate the importance of the errors involved, yet we may be able to say in which way they will probably affect the results. Take, for instance, the effect of free accommodation being given for municipal trading offices in town halls or in other public buildings. Such accommodation is not given for the offices of private gas and water companies; and, consequently, when accommodation is given for municipal trading offices in public buildings, some portion of the expenditure on their erection and maintenance is necessary only because of these municipal enterprises. As a matter of account, therefore, a rent should always be included in the cost of all municipal industries when they receive any such advantages. But has this been done? It has been stated that, had the cost of book-keeping, rentals and other items been properly included, the accounts of the Philadelphia Gas-Works would have shown a loss and not a profit.[1] Though the errors in English municipal accounts are probably never as serious as is suggested in this instance, yet such rents are not usually charged; and, as long as this is the case, English municipal accounts will not show the true cost to municipalities of the trading enterprises undertaken by them. The exact sum to be charged would, no doubt, be difficult to estimate; but this should not prevent a reasonable charge being made and entered. Then again it has been suggested that salaries are charged under various other headings in municipal accounts, and are not properly debited to the trading enterprises which necessitate the expenditure. It is, for example, reasonable that some portion of the salaries of the town clerk, the borough surveyor, and other officials should be charged against the municipal gas- and waterworks, especially as the increase of business arising from the municipalisation of these industries is not infrequently given as a reason for increasing the pay of these officials; and such charges are, I believe, seldom or never included in English municipal accounts.[1] It has been stated that the French Postal Budget is wholly delusive because neither interest on capital, nor railway charges, nor pensions, are fully charged;[2] and it would be far more satisfactory, to say the least, if steps were taken to ensure that all expenditure on salaries and pensions was correctly entered in the case of English municipal enterprises. We are told by one witness before the Joint Committee on Municipal Trading that he found great difficulty in "determining whether "the coal, for instance, which the Corporation has "bought has been properly charged to their "electric lighting undertaking and to their dust "destructor."[3] Obviously all material used, together with a share of the municipal stationery, should be charged to each enterprise to show the true cost. On similar grounds, it is wrong for a municipality to charge to the general municipal account more of the cost of the widening of streets to enable a municipal tramway to be constructed than would have been charged had the tramway been made by a private company; a method of hiding the true relative cost of public and private enterprise which, it is stated, one city, at all events, has attempted to adopt, though probably not with that object.[1] Lastly, municipal enterprises must be treated exactly as private companies in all matters of taxation, local or general. It has been suggested that municipal property is rated more leniently than private property; and, if this is the case, a loss will arise from the municipalisation of any enterprise which will not show itself in the trading accounts.[2] It is true that the assessment is made by a local body distinct from that in charge of the municipal enterprise.[3] This is not, however, a very efficient safeguard against such errors; for there is little sense of injustice in rating a public building too low. The foregoing are examples of errors which, it has been asserted, have been made in the keeping of municipal accounts, every one of which would make municipal production appear to cost less than it really does. It may, perhaps, not unreasonably be urged that the correction of these errors would not greatly alter the percentage of gross profits. We are here, however, dealing with narrow margins; and without doubt these circumstances must make us view the foregoing conclusions with some suspicion, a suspicion which must be allowed to carry a certain weight when these statistical results are quoted in the controversy on Municipal Trade.

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[1] "The Lease of the Philadelphia Gas-Works," W. D. Lewis, *Quart. Journal of Economics*, January 1898.

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[1] M.T.R., Qs. 870, 1140, 1580, 1681; "Traction and Transmission," January 1902, p. 21; and *Economic Journal*, March 1901, p. 17.

[2] "L'Etat Moderne," Leroy-Beaulieu, 1860, p. 163.

[3] M.T.R., Q. 1141, Mr Emile Garcke.

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[1] M.T.R., Q. 870.

[2] *Ibid.*, Q. 3419.

[3] *Ibid.*, Q. 3158.

(19) Another question which has been raised with regard to municipal accounts is in connection with depreciation. Perhaps this subject can best be illustrated by first considering an extreme and, of course, impossible theoretical example. Take the case of a hypothetical industrial concern, the whole capital of which is invested in plant and machinery; and the plant and machinery of which is, moreover, not being kept up to date by expenditure on maintenance, and is, therefore, depreciating steadily in value, so that at the end of, say, thirty years, it will become valueless. In these circumstances, if an annual depreciation is properly entered in the accounts, a fund will be created which, at the end of the thirty years will be equal to the total original capital, and with which, therefore, new plant could be bought, and the business started anew without any more funds being raised. This is what, as a rule, would, and what certainly should always be done in private trade. But with public enterprises, when the debts created are paid off in a certain number of years, the case is different. Take the case of a somewhat similar hypothetical municipal enterprise, in the accounts of which no annual charge is made for depreciation, the debts, however, being completely redeemed at the end of the thirty years. At the end of that period there would be no liabilities and no assets. There would, it is true, be no funds wherewith to recommence business; but the citizens of that time could raise no complaint on that ground; for they would have subscribed nothing and lost nothing.

This hypothetical industry, no doubt, represents a grotesque exaggeration of what might occur; for land never "wears out," and plant and machinery can often be kept quite up to its initial value by renewals and expenditure on maintenance. But these illustrations do make it clear that there is some justification for charging depreciation on a different scale in municipal trades, where the whole of the capital expenditure is being wiped out by sinking funds, to what ought to be charged in private trades, where no such provision is being made for the future.

(20) But, whatever be right or wrong, if, in the English municipal trades included in the Local Government Board Returns, depreciation has not, as a fact, been charged on the full scale which ought to be adopted in private trade, it will be seen that the foregoing conclusions cannot be accepted as being accurate for our purposes. We have seen that the gross profit on these municipal remunerative undertakings amounts to 3·8 per cent. on the total capital provided; and it has been assumed that this 3·8 per cent. will be all available as net profit when the municipal debts have all been redeemed. But if the depreciation charged has not been adequate to create a fund to cover all future expenditure on renewals, it is obvious that more money will have to be raised at some future time, and that the future net profits will be less than this 3·8 per cent. gross profits by the amount which will have to be charged for interest and sinking funds for this new capital. This is obviously an important point, if it be true, as has often been asserted, that the depreciation charged

in municipal trades is on a very low scale. Independent enquiry is much needed on this point, and at present it can only be said that the amount included in the above-mentioned returns appears to be very small. Some deduction probably ought to be made from the 3·8 per cent. gross profits; but what that deduction should be it is impossible to say.[1]

(21) It was assumed in the case of the above-mentioned hypothetical industry under municipal management, that the plant wore out at the same date at which the debts were wholly redeemed; and it was seen that, in these circumstances, the citizens of the future would have no cause of complaint, even if no depreciation were charged. But if the period for the redemption of debts be longer than the average life of the plant purchased with the money thus raised, and if depreciation be not properly charged, then a more or less considerable amount of capital must be raised *before* the old debts are all redeemed. This consideration appears always to be held in view by the Government Departments when dealing with local loans. For example, when Local Authorities construct tramways with the view of leasing them out to be worked by private companies, then the loan is allowed to run for a longer period than would be permitted if the municipality had intended to work the business itself; the reason being that the working of tramways necessitates the purchase of tramcars and other short-lived assets, a purchase which would be unnecessary if the tramways were

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[1] M.T.R., Qs. 1157 and 1679; *Economic Journal*, March 1901, p. 17; "Traction and Transmission," March 1902, p. 159; *Times*, 28th August and 30th September 1902.

to be leased to private companies. This is as it should be; but, unfortunately, an element of doubt must thus be introduced into all comparisons between the two systems;[1] for it is impossible to tell whether the relative lengths of the loans corresponds truly to the relative length of life of the plants in the two cases. Again, if a proper capital account be kept, the capital being regularly diminished by depreciation, and also increased when plant is renewed, the profits will be correctly and uniformly shown by the accounts. But if this is not done in the earlier years, when the plant is new and requires little expenditure on maintenance and renewals, the net profits shown will be large. The majority of our municipal trades being still in their infancy, if judged by the date at which the bulk of the expenditure on them was incurred, we here have another reason connected with depreciation, though perhaps not a very important one, for suspecting that statistics paint the prospects of those about to enter the field of Municipal Trade somewhat too brightly.

(22) Thus doubts have been thrown on the accuracy of the records of the expenditure on municipal trades, and therefore on the net profits deduced from them. But if these net profits are to be quoted as percentages of the capital employed we must also enquire whether that capital has been correctly recorded. In the first place, the capital statement in the foregoing table dealing with all the remunerative undertakings shows the position on 31st March 1902, whilst the income is for the average of the four years ended on that date.

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[1] "Traction and Transmission," January 1902, p. 21.

During those four years debts were being paid off, and new loans negotiated; and what we ought to have is a capital statement for the middle of that period. Hence the foregoing results tell in this respect unduly against Municipal Trade. As far as the imperfect information at my command enables me to judge, I estimate that the gross profits on gas-works should be increased from 5·4 per cent. to 5·8 per cent., the estimated period for the redemption of debts remaining about the same; and, as to the total of the remunerative undertakings, the gross profit should be increased from 3·8 per cent. to somewhat over 4 per cent., and the estimated period for the redemption of loans reduced from forty-two to forty years. The net profits are but little affected by this error. These corrections are, however, but little trustworthy.

(23) It is, nevertheless, probable that for other reasons the capital is likely to be understated rather than overstated. From the original Local Government Board Returns it will be seen that the "Total "Capital provided" is, in the case of gas-works, greater than the "Amount of Capital borrowed" by the sum of £1,270,694; a difference which is accounted for in ways mentioned in the notes to the Return, as well as possibly by capital being raised by taxation or taken out of profits; and certainly, for the purposes of our calculations, all such sums should be included in the total capital. To illustrate this point, let us take an extreme case, and assume that the whole of the capital expenditure in purchasing certain gas-works was obtained from the municipal revenues and none by loan. In these circumstances citizens would be heavily taxed

for the benefit of posterity. But the net profits made on gas-works thus purchased, if calculated as a percentage on the money actually thus invested, however it might have been obtained, would serve as a correct guide to other Local Authorities in the future, whether these other Local Authorities intended to raise funds for their enterprises by loan or not. In fact, in seeking for guidance for the future with regard to capital investments, we want to know, not the capital value of the existing municipal enterprises, nor the amount borrowed by municipalities, but the actual amount of capital expenditure. Annual losses incurred should not be covered by writing down the total capital provided, as is sometimes done in private trade; neither should money raised by taxation to cover such losses be added to the total sum provided. But when *capital* expenditure is covered either by taxation, or by providing the necessary funds out of the profits made, then the total capital provided should be increased by a like amount. To obtain accurate results as far as our calculations are concerned, the foregoing rules with regard to capital expenditure should be followed. Unfortunately, we have reason to believe that this has not been done, and that an error, great or small, has thus been introduced. As to money raised by taxation, it has been asserted, for example, that initial charges in the case of electric lighting, presumably chargeable to capital account, are sometimes "paid out of the rates in the years in "which they accrue," and then disappear out of the accounts.[1] As to capital expenditure out of profits, there is no evidence to guide us. But, judging by the daily delivery of gas, we find that the "capital "employed" in the Manchester Corporation gas-works would have to be increased by between £300,000 and £600,000 to bring it up to the level of the "capital employed" by the Metropolitan private gas companies.[1] Now this difference may be due either—(1) to the private works having been more expensively constructed, or (2) to the capital employed in the private works including a premium on the sums originally invested, or (3) to money having been provided out of profits for capital expenditure on the municipal works, and no corresponding increase having been made in the total capital provided; and to whatever extent this third explanation is the correct one, to that extent the total capital provided as assumed in the foregoing calculations is erroneous. Manchester, by municipalising the gas industry more than sixty years ago, took a considerable risk, and was able consequently to make considerable profits; and in these circumstances the provision of capital expenditure out of profits, if it was done, was an eminently wise and prudent act. There is, perhaps, no reason why this capital expenditure should have been shown by the Corporation for their own purposes in their accounts, and there is, therefore, now nothing to show that Manchester did not in the past thus invest several hundreds of thousands of pounds in her gas-works, sums which do not now appear in the total capital provided. The Manchester gas-works must not be quoted by the advocates of Municipal Trade without making full allowance for this possibility, nor without acknowledging the impossibility of Local Authorities buying gas-works in future ever again putting aside such large sums out of profits. If Manchester is still providing capital expenditure out of profits, that is an item to be noted on the other side; for then the net profits made should for our purposes be correspondingly increased. As there are few municipal enterprises comparable to the Manchester gas-works, this error in the "Total Capital provided" is not likely to affect average results very seriously. But it will affect them somewhat; and to whatever extent the capital ought to have been increased by the inclusion of capital expenditure provided for out of taxation or out of profits, to a corresponding extent will the estimated net profits as calculated as a percentage of the total capital provided give a too favourable guide for the prospects of municipal enterprise in future.

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[1] M.T.R., Q. 1677, Mr W. L. Madgen.

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[1] "Gas Analysis," Field, 1900, p. 16.

(24) But even if we could eliminate all errors with regard to current and capital expenditure, we should still have to enquire what additions to or deductions from the accurately stated net profits should be made to ascertain what municipalities have *gained* by their trading enterprises; or, in other words, to find out how much taxation has been increased or reduced thereby. As to possible additions to the net profits, it has already been mentioned that if the charges connected with the inspection of gas, for example, are included in the cost of the municipal gas-works, an addition must be made to the net profit to ascertain the gain; for such charges would have to be provided for out of the public revenues if the works were in

private hands. Both from the point of view of the efficiency of the inspection and on financial grounds, the inspecting departments should in every way be kept as distinct as possible from the manufacturing departments; and the cost of the inspecting department should be debited to the ordinary borough funds. But there is no means of ascertaining to what extent this principle has been adhered to, or, consequently, of estimating the additions which should be made to the net profits on this account. This must merely be noted as an unknown, though probably not a very material correction to be made to the net profits in ascertaining the gains.

(25) As to the deductions which should be made from the net profits in ascertaining the gains, it has already been remarked that the foregoing results may require corrections because of items connected with taxation, rents of public buildings, widenings of streets, etc., not being properly entered under the expenditure. But, in addition to all such corrections, the rents which might have been drawn from private companies had the existing municipal remunerative undertakings been left in their hands, though they should not be included in the municipal accounts, should, nevertheless, be deducted from the net profits to ascertain what municipalities are really gaining by the undertakings managed by them. Taking the case of tramways, it will be seen from the Local Government Board Returns under consideration that the net profits of the tramways owned and managed by English municipalities were £81,904 a year on an average, the gross profits amounting to £373,981. There can be no doubt that, had these tramways

been leased out for working, the companies managing them would have paid rents to the municipalities concerned; and what we have to do is to endeavour to ascertain what these rents would have amounted to. In the original Local Government Board Returns, it will be seen that the tramways owned, but *not* worked by Corporations, return to the Corporations working them a net profit of 1·5 per cent. on the total capital provided by the Corporations. But the capital provided by Corporations is, so I am informed, some 20 per cent. less in the case of lines leased out by Corporations than it would be if those same lines were actually in their management. Making allowance for this fact, it would appear that the tramways now worked by municipalities with a capital of £8,610,573 would have brought in over £105,000 a year if they had been leased out to private companies. Again in the recent negotiations with reference to the renewals of the lease of the Birmingham tramways, the rental proposed by the company was one rising to 15 per cent. on the gross receipts; and, if this figure could be accepted as a basis for average calculations, English municipal tramways would have brought in over £200,000 a year to the Local Authorities if they had been leased out to private companies.[1] English municipalities are now making a net profit of about £80,000 a year out of the tramways they manage, a profit which will eventually increase to about £375,000 a year; these tramways might be leased out to private companies for between £100,000 and £200,000 a year; and it is, therefore, fair to state that English municipalities are now losing between

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[1] See also "Traction and Transmission," October 1901, p. 99.

£20,000 and £120,000 on their tramways, a loss which will be gradually converted into a gain of between £75,000 and £175,000 a year. The foregoing figures, moreover, probably give a somewhat unfair impression; because no notice has been taken of the fact that, besides the rents, the leasing companies have in many cases to cover the cost of the sinking funds on the Local Authorities' loans. As regards other reproductive undertakings, we find that in New York the various ferry companies have been paying about £70,000 a year to the city, whilst the leased wharf property brings in a very large sum;[1] and such figures make one suspect that very considerable deductions should be made, for example, from the gross profit of about £20,000 a year made by the Birkenhead municipal ferries before that figure could be utilised in estimating the gains made by that city from its municipal undertakings. As to gas-works, we find that for several years the annual payment of the companies managing these undertakings to the city of Paris amounted to about £800,000 a year.[2] In the face of these facts, it is clear that English Local Authorities could have leased out their tramways, ferries, markets, gas-works, etc., to private companies, and that the rents they would then have received ought to be deducted from the net profits in estimating the gains.

(26) The rents obtainable from private companies obviously depend on the prices and fares they are allowed to charge; a question to be considered in the next chapter. The following figures may, however, help to illustrate the importance of the question.

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[1] "Municipal Administration," Fairlie, pp. 301 and 306.

[2] "Municipal Government in Continental Europe," Albert Shaw, p. 48.

Eight per cent. on the gross receipts of English remunerative undertakings amounts to little more than 0·8 per cent. on the total capital provided. Assuming for the purposes of illustration that, if all the existing remunerative undertakings were leased out to private companies for management, a rental of 8 per cent. on the gross receipts would, on the average, be obtained—not an extravagant assumption, if we may judge by the 15 per cent. rent offered at Birmingham—it would follow that English municipalities could on an average get 0·8 per cent. on the total capital provided by leasing out their remunerative undertakings to private companies. According to the Returns, it would appear that our municipalities are actually making a net profit of 3·8 per cent. by managing these works themselves; that is to say, on this assumption they are, by managing these works themselves, making 3 per cent. more than they would make if they leased them out to private companies. But this 3 per cent. is only just sufficient to cover the interest on the debts, and it leaves no margin whatever for the repayments of capital. In other words, if all the existing remunerative undertakings could be leased out on such terms that an average rental of 8 per cent. on the gross receipts could be obtained, it would follow that English communities are gaining nothing whatever by their remunerative undertakings, and that the repayments of principal are all being paid out of taxation which would not have been raised but for these remunerative undertakings. It is impossible to say whether 8 per cent. is too high or too low an estimate of the average of the rents which might thus be obtained; and, even if there were no other elements of doubt, we should have to confess our inability to say whether the financial effects of Municipal Trade are harmful or beneficial.

(27) In reply to the foregoing argument it may be said that Manchester, for example, is now making over £60,000 a year in net profits from the city gas-works, whereas, if these same gas-works had been established by a private company in the ordinary manner, Manchester would now be receiving nothing whatever from them. Consequently, it may be urged, this sum of over £60,000 is all pure gain, and no deduction should be made from it. This is true if the comparison to be made is that between municipal trade and private trade under a system of perpetual concessions, such as those granted to companies managing gas-works, water-works, etc. But if perpetual concessions for such undertakings stand condemned, and if terminable concessions ought to be adopted instead, then the comparison which should be instituted for the purposes of this discussion is that between Municipal Trade and private trade under a system of terminable concessions. It is therefore legitimate for our purposes to compare the existing financial condition of Manchester with the financial condition which would now exist had Manchester originally handed over the management of her gas-works to a private company working under a terminable concession. If this course of action had been pursued, it is very probable that at first no rent would have been obtained from the private company. But the concession would have contained provisions enabling the city to have made fresh arrangements with the company from time to

time; and as to all the circumstances which have actually made the business more and more profitable to the Local Authorities managing it, these same circumstances would also have made it possible for the private company to pay an increasing rent to the Local Authorities for the privileges conferred on it. In fact the rents obtainable from hypothetical companies working under terminable concessions will generally increase *pari passu* with municipal profits. Manchester would now probably be drawing a large rent from a private company had private trade under the system here advocated been adopted; and that rent should be deducted from the municipal profits if the example of Manchester is to be taken as a guide for the future in comparing Municipal Trade with private trade under terminable concessions.

(28) Thus far we have seen that the net profits on the total capital provided as deduced from these returns are in all probability somewhat too large, and that considerable deductions would have to be made from these net profits even if they were accurately ascertained in order to estimate what English municipalities have on the average gained by their remunerative undertakings. But, in addition to these elements of doubt, we have now to enquire how far the gains actually made by municipalities in the past, if known, could be accepted as guides for the future. There are many reasons for not relying on the statistics of municipal trades for purposes of forecasting, possibly the most important being that our experience has, in reality, been but short and scanty. We have seen that the profits and losses made by trading

with borrowed money are largely due to the result of circumstances which could not be foreseen, or, in popular language, to good or bad luck; and, to obtain correct average results by eliminating this factor, we ought to have the records of the municipalisation of many *different* trades. This we have not got, and all forecasts based on past experience are therefore very unreliable.

(29) Any considerable increase in the debt of any municipality will undoubtedly tend to increase the rate of interest payable on new loans; and in this fact we find another reason for distrusting the results of statistical enquiries. It is probable, in my opinion, that, at all events until quite recently, the security offered in England by municipalities has been considered so ample that the rate of interest on all loans has been as low as it would have been had no municipal trades existed. But if the policy of municipalisation were ever adopted in London, for example, even to the extent advocated by some serious politicians, it would, to quote the words of Lord Avebury, make the rate of interest "appreciably higher than it is at "present";[1] and to whatever extent this result is actually experienced in the future, to that extent will the statistics of the past prove to have been false guides for the future. Moreover, if in reality Municipal Trade has already raised the rate of interest, it appears for the following reasons that municipal statistics do not even now represent the true cost to the public of these undertakings; an error which will increase with every advance of Municipal Trade. No doubt, when the rate of

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[1] M.T.R., Qs. 1550 and 3137.

interest paid on the loans raised by Local Authorities *for industrial purposes* has risen from any cause not affecting private trade, the results will be apparent in the rate of net profits earned by the municipalities in question. But the rate of interest payable on *all other* municipal loans borrowed at the same time will rise equally; and in this way Municipal Trade may throw an additional charge on the ordinary civic expenditure which will not show itself in the accounts of the municipal industries to which it is really due. Thus the effect which Municipal Trade may have in increasing the rate of interest on municipal loans not only makes past results unreliable as guides for the future, but also makes the recorded net profits an uncertain guide as to what municipalities are actually gaining by their industrial ventures.

(30) We have seen reason to believe that the gas-works which passed into public hands some years ago are *now* more profitable than those which have been more recently acquired by Local Authorities, and it is very important to enquire how far this fact should influence our forecasts as to the future. If the making of greater profits by these older municipal industries is to be accounted for as being the effect of the gradual increase of business as time went on, we might expect by analogy that future municipal undertakings would go through the same development, and that, consequently, the immediate prospects of any new venture should not be taken as a guide for its future prospects. But if it could be shown that the older municipal industries were always more profitable, on the average, than the later ones

at corresponding periods in their careers, it would follow that we could hold out no such flattering prospects for the future, and we should have to judge the future more by the *immediate* past. We do not, however, know whether or to what extent the older municipalisations were always more profitable; and all we can do, therefore, is to enquire into the causes which are likely to affect the profits of municipal trades as time goes on.

(31) In making this enquiry it is in the first place to be observed that experience shows that a well established industry becoming *intrinsically* more profitable is a rarer contingency than its becoming less profitable or dying out because of its partial or total supersession by other industries or inventions. If this be so, it is more probable that gas-works will in the future be rendered less profitable by competition with electrical-works, and tramways less profitable by competition with motor cars, than that gas-works and tramways will become more profitable without any change occurring in the local surroundings. Here, then, we have a cause tending to make municipal trades get less remunerative as time goes on.

(32) Whatever influence the probable decay of industries should have on our forecasts for the future, it is certain that this cause has produced very little effect on English Municipal Trade in the past. The results, if any, have been swamped by the effect of the increase in population; and it is in the growth of towns that we obviously find the main reason why municipal industries tend gradually to become more profitable as time goes on. Even without statistical

proof, it cannot be denied that the profits on municipal gas-works, etc., have tended to increase; but, even though this be admitted, there are two reasons why the profits now made in industries which have been a long time in public hands should not be taken as an indication of the profits likely to be made by municipalities on their new ventures in years to come. The first of these reasons is that we cannot assume that the increase of population which has occurred in the past will continue at the same rate in future; for the recent census returns indicate a considerable diminution in that rate of increase, or even that no increase at all will be made in future. The increase in the profits made by municipal monopolies will probably cease if our towns cease to grow.

(33) The second reason why the results of the older municipalisations should not be quoted as guides for the future, at all events as regards the municipalisation of the same industry, is because it is probable that these older ventures have always been more profitable than the more recent ones *in the same industry.* In considering this point it is necessary to refer again to the effect of risks on profits. The apparent risk in any industry may either increase or decrease as time goes on; but as it has seldom increased in those industries which have usually been municipalised, and as, had it done so, municipalities would seldom have been tempted to buy the works of private proprietors in these circumstances, what we really have to consider is the effect of a diminution in the apparent risk in particular industries

and in industries generally. The rate of interest fell considerally during the last half of the last century; but, in so far as this fall affected municipal and industrial securities alike, it had no effect on municipal net profits. That this is so will be apparent when it is remembered that municipal net profits depend on the difference between the rate of interest paid by municipalities on their loans and the rate of interest paid by the bought out companies to their shareholders and creditors. But when the risk connected with any industry diminishes, the rate of interest, as calculated on the market value of the stocks and shares, inevitably falls *in comparison* with the rate of interest payable by municipalities for their loans; and municipalities buying up works after such a fall will make a correspondingly smaller net profit on their investment. When a private company has been allowed to take the whole risk connected with any industrial concern for many years, a large part of the increase in the market value of that concern has usually been allowed to pass into the hands of that company; and certainly the citizen of the districts served cannot hope to reap the same rewards as if they themselves had taken the whole risk. To whatever extent this is the true explanation of the older municipal gas-works being more profitable than the more recent municipal undertakings in gas, to that extent we must cease to rely on this difference as indicating the probability of gas-works now being municipalised becoming in future as profitable as these older municipal gas-works. It may be that Local

Authorities now buying up *new* trades, such as electrical works, with borrowed money, may make large profits either immediately or in the future; but the other possibility, namely that of large losses being incurred, must also be held in view. But, if it be true that the anticipated risk has, on the average, been diminishing in the industries which have been municipalised in the past, the average results of municipal trades must not be accepted without reserve as indications of the profits likely to be made in the future by the municipalisation of well established trades.

(34) We have endeavoured in this chapter to draw certain conclusions from the statistics of English municipal trades, and to ascertain to what extent reliance may justifiably be placed on these figures. In order to judge whether these statistical results accord or disaccord with the theoretical conclusions arrived at in the preceding chapter, it will be convenient briefly to summarise the foregoing discussion. But before doing so, it is necessary first to consider the whole question of municipal statistics in connection with the prices and qualities of the goods supplied, a subject which has thus far hardly been touched on.

IX

PRICE AND QUALITY

(1) THE low fares and prices which are said to be charged when public bodies manage industries are perhaps mentioned nearly as often as profits, as an argument in favour of municipal enterprise. But if Local Authorities who are managing and making a profit out of gas-works, for example, should lower the price of gas, their profits would be reduced; and, on the one hand, the ratepayers would be injuriously affected by having to make up out of the rates the deficiency thus created in the local revenues; whilst, on the other hand, the consumers of gas would be benefited to an approximately equal extent by the reduction in their gas bills. It is true that, when prices are reduced in *competitive* trades, the resulting increase of business often materially compensates the manufacturer for the diminution in the profit on each article sold, though that compensation is often, I believe, grossly over-estimated. But, in the case of municipal *monopolies*, where, for the most part, private proprietors would charge higher prices if permitted to do so, no considerable increase of trade results from a moderate reduction in prices, and the owners of such monopolies as a rule lose almost in proportion to the reductions

made in prices. If we may be allowed to hold that the disadvantages to one class cancel the advantages to another class, it follows, therefore, that, in a sense, the community, as a whole, will be but little affected either beneficially or injuriously by any changes in the prices of the goods usually manufactured by public bodies. We shall, it is true, in chap. xii. see reason to believe that municipalities and private companies ought to charge prices on about the same level; but, even if this conclusion be admitted, it leaves a fairly wide margin of doubt as to the prices which ought to be charged in non-competitive trades. Within this margin of doubt, whatever may be the effect on different classes, it may therefore be said that the community, as a whole, is hardly affected by changes in the prices of goods manufactured in municipal trades; and from this conclusion it obviously follows that there is no theoretical difficulty in answering the question whether the community as a whole has or has not gained financially by the introduction of Municipal Trade without reference to the exact level of prices charged either by Local Authorities or by private traders.

(2) In the preceding chapter we endeavoured to estimate the amount that English municipalities are actually gaining by their trading enterprises; and this we did by first estimating the net profits which actually form part of their available revenues, and then deducting from these net profits any rents or other sums which these municipalities would have received if, instead of undertaking the management themselves, they

had left the municipalised industries in private hands. These hypothetical rents, it was remarked, would obviously vary with the terms of the concessions which might have been granted to the private companies; but, if we could ascertain the rents which companies would have been willing to pay if bound to carry on the trades now municipalised on exactly the same lines as the municipalities now managing them, we should thus get the exact deduction we want to find. If municipalities were to raise their prices, their profits would increase; but these hypothetical rents would rise also; and the difference between the two, or the gain, would be but little affected by any such changes in prices. The gain thus ascertained would represent the sum which English communities as a whole have actually gained by their Local Authorities having undertaken the management of certain undertakings; and this gain thus ascertained would be, as it should be, independent of the prices charged either in municipal or in private trade. It would, in fact, be what we want to ascertain.

(3) Unfortunately, as we have seen, we cannot estimate with any accuracy the rents which could be extracted from private companies in these circumstances. Such vague guesses as can be made must be based on the rents now actually paid by existing companies; and these rents depend on the prices actually charged by these companies. Thus we are driven to include in our calculations the very element we wish to exclude, namely the relative level of prices in private and in Municipal Trade.

(4) We are, therefore, tempted to seek some other method of estimating the gain made by communities from the trades managed by their municipal representatives. Is it not possible to divide the enquiry into two parts? May we not in the first place enquire, without any reference to these hypothetical rents, what *ratepayers* have actually gained or lost by the profits or losses made in Municipal Trade? And, in the second place, is it not possible to ascertain how much the *consumers* of goods supplied by municipalities have gained or lost in consequence of the payment of a lower or higher price than would have been charged had the municipalised industries been left in private hands? If the enquiry can thus be divided into two parts, and if no erroneous assumptions are thus introduced, it is obvious that, by adding together the results thus obtained, we have a method of ascertaining the financial effects of Municipal Trade on *the community as a whole.*

(5) As to the first half of this enquiry, namely, the estimation of the net profits or losses which have been made or which are likely to be made in municipal trades, an attempt to ascertain this information was made in the preceding chapter. It was seen that, according to the Local Government Board Returns, English municipalities have, on the average, made a gross profit of 3·8 per cent. on their remunerative undertakings; and an estimate was made of the charges for repayment of principal and interest which should be deducted from the gross profit in order to ascertain the future available net profit or loss. This, in fact, constitutes the first part of the enquiry now suggested; and, as to this part, the

reasons previously given for doubting both the accuracy of any results deduced from the Local Government Board Returns and their applicability as guides for future action all hold good. The second half of the enquiry, or the gain or loss to the consumer, must now be considered. The level of prices actually charged in municipal trades and the level of prices which would have been charged had these trades remained in private hands, should first be ascertained; and this difference of price, if ascertainable, together with the total volume of trade as indicated by the Local Government Board Returns, would give all the necessary data for ascertaining how much consumers have actually gained or lost as the result of Municipal Trade. We have, therefore, now to enquire whether it is possible to obtain the required information.

(6) It is obvious that any comparison between the prices actually charged in municipal trades and the prices which *would have been charged had the municipalised industries remained in private hands* must be based on a comparison between the prices actually charged in municipal trades and *the prices actually charged in private trades.* Here we meet with our first difficulty. If we compare the prices charged by a municipality in *one locality* with the prices charged by a private company in *another locality,* we must take all the local circumstances into account. Taking gas as an example, we see that its price depends on its illuminating power, on the amount manufactured, on the price of coal, on the local demand for by-products, on the price of labour, and on the density and habits of the population. If the price of gas in two localities is

compared without making proper allowance for each one of these circumstances, the results will be misleading; because such a comparison might make the more efficiently managed works appear to be the worse. The late Sir Courtenay Boyle, Permanent Secretary to the Board of Trade, informed the Committee on Municipal Trading that "the average receipts per 1000 cubic feet of gas sold was, in the case of Local Authorities, 3s. 0.4d. as compared with 3s. 6.2d. received by "companies. This would indicate," he added, "that "generally the price charged to consumers was "higher in the case of companies than Local "Authorities, but in making such a comparison it "should be borne in mind that the districts served "by Local Authorities are usually the most populous, "and therefore the most remunerative";[1] and that, "on the whole, the returns do not suggest that "in like circumstances there is any great balance "of advantage to the consumer as regards the price "charged in being supplied by a Local Authority "instead of by a company."[2] Thus, according to the opinion of so high an authority as Sir Courtenay Boyle, it appears that a difference in the price of gas of over 16 per cent. between two large groups of towns may be mainly accounted for by the difference of the circumstances in the two cases. From this it follows that any comparison between the average prices charged for gas in one set of towns by private companies with the average prices charged in another set of towns by municipalities would not enable us to make even a moderately accurate estimate of the prices which would have been charged by private companies in the towns now supplied by Local Authorities.

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[1] M.T.R., Q. 42.

[2] *Ibid.*, p. 351.

(7) The circumstances with regard to the gas industry are not exceptional; for in other trades similar difficulties are met with, and the comparison between the prices reasonably charged in different localities may present even greater obstacles. With regard to tramways, for example, the more dense the population the lower would be the fares, if they were regulated by the cost of the service; but, though this is clear enough, it is exceedingly difficult to estimate the allowance which should be made on this account in attempting to compare the fares charged in different places.[1] As to electric lighting undertakings, it has been said that "no problem in economics "has yielded more discordant solutions than has "the problem of the comparative value of muni-"cipal and private ownership"; and, if prices can only be compared without correction in "similarly situated stations where the load curve "is of similar form and area," this is not surprising.[2] As to water supply, the capital expenditure is so great in comparison with the working expenses, and varies so immensely in different localities, that comparisons of water-rates tell almost nothing as to the relative merits of different systems of management.

(8) For the purposes of this discussion, the best method of making a reliable comparison between the prices charged under the different systems

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[1] M.T.R., Qs. 4097 and 4105.

[2] "Municipal Monopolies," Bemis, Article by Dr F. A. C. Perrine, pp. 286, 290.

of management in different localities would be to select pairs of towns where the circumstances are similar, and where the industry under examination is, in the one case, in public hands, and, in the other, in private hands; and to compare the prices charged in each pair of places. This Sir George Livesey has attempted to do in the case of the gas trade, with the result that, by a simple inspection of the figures supplied by him, it cannot be ascertained which charges most, private companies or municipalities.[1] By taking averages of the figures given by him, I make out that companies charge $\frac{3}{5}$d. per 1000 cubic feet more than Local Authorities, a very different figure from that mentioned by Sir Courtenay Boyle. But, even if this method of grouping is the best available, it is, nevertheless, open to grave objections. It is almost impossible to avoid some unconscious prejudice in the selection of the groups for comparison. This method, moreover, takes no account of quality, an omission so important that if it were accurately allowed for, it might easily alter the result in the above comparison, one way or the other, by far more than $\frac{3}{5}$d. per 1000 cubic feet. These two considerations merely throw doubts on the accuracy of this method; but when it is suggested that municipalities have certain advantages not easily eliminated in this way, the doubt is whether the results do not tell unfavourably in one direction. For example, where the conditions are most favourable, there municipalities will be most likely to undertake the work themselves; a reason which has been assigned for the higher average price of electricity supplied by private as compared with public enterprises.[1] In a similar way, the lower prices charged by public bodies may be due to their not pushing their industries into the less paying outlying districts, which are often under other Local Authorities; though it is true that the advocates of municipal enterprise sometimes claim its greater progressiveness as one of its merits. Again, the price of electricity depends on the extent to which the plant is used for the lighting of streets; and this branch of the industry is likely to be more rapidly developed where the municipality itself manages the electrical works.[2] Local Authorities are, in the case of municipal trades, both the buyers and sellers of water, gas, electricity, etc., and it has been suggested that the result is that there is a tendency to book a *higher* price for the goods supplied for the public use than would be actually given if they were bought from a private company, when the bargaining would be more keen. Where this is the case, municipalities, whilst obtaining the same gross revenue as private companies, are thus enabled to sell the same article at a *lower* price to ordinary consumers. If the practice in a certain group of towns, where "the charges for the electrical "lighting of the streets ranged from 3·53d. to 5·90d., "whereas the commercial value of the light as sup-"plied in each case should not be more than 2½d. "or 3d," may be taken as typical, this question is a most important one.[3] In any case, it is obvious that the prices of goods supplied both to the public and to private consumers must be considered in any comparison. All the foregoing appear to me to be legitimate reasons for suspecting that municipalities are able to keep down the price of goods supplied to ordinary consumers in ways which should not tell in favour of municipal enterprise in this controversy, although such reductions in prices would of course affect the results of any comparison between carefully selected pairs of towns.

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[1] M.T.R., p. 490.

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[1] M.T.R., Q. 220.

[2] M.T.R., Q. 1153.

[3] *Times*, 28th August 1902.

(9) Thus there appear to be almost insuperable difficulties in making an accurate comparison between prices charged in municipal trades in one locality and prices charged in private trades in another locality. Many of these difficulties are avoided if, when works are municipalised, we compare the prices charged before and after the change in the management. We thus avoid all questions connected with local circumstances; but we avoid them only to meet with other difficulties equally insurmountable. No doubt, it is often urged by those who are arguing in favour of municipalisation, that prices and fares have, as a fact, been greatly reduced by municipalities after they have undertaken the management of different trades. The facts are very often as stated; but, taken by themselves, these reductions tell absolutely nothing whatever. No doubt, municipalities owning gas-works have greatly reduced the prices of gas in recent years; but so also have private companies. And if it be a fact, as stated by Sir George Livesey, that the reduction in average prices between 1883 and 1899 was barely 4d. per 1000 cubic feet in the case of municipal gas-works as compared with a trifle over 6d. in the case of private companies,

the argument based on the reduction of prices tells in this instance for what it is worth against municipalisation.[1] It is even more useless to quote the reductions in prices or fares made by Local Authorities when they are able to obtain possession under statutory powers of electrical works or tramway lines at the end of given periods; for, as will be seen presently, whoever then undertakes the business, whether they have managed it before or not, ought to be able to make reductions in charges without loss of income.

(10) This latter point necessitates again referring to the effect of the terms of the concessions granted to private companies on the prices charged by them. In the first place, if a company was paying a rent to a municipality before it was bought out, it is obvious that the Local Authorities would be able to reduce prices or fares after municipalisation and to show a profit, if they did not continue to debit to the works a sum equivalent to that rent. Whether, according to the method suggested in previous paragraphs, we compare the fares charged by existing tramway companies with the fares charged by neighbouring municipalities owning tramways, or whether, as now suggested, we compare the fares charged in the same locality before and after the municipalisation of the tramways, we must take full account of any rent actually paid by the private companies in question; and this must be done either by making for the purposes of this comparison a proportionate deduction from the fares actually charged by these private companies, or, as suggested in previous chapters, by

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[1] M.T.R., Q. 3258.

deducting these rents from the municipal profits in order to estimate the gain to the community.

(11) There are, moreover, other circumstances connected with the conditions attached to terminable concessions which affect the prices charged in trades which tend to become monopolies; and these circumstances must be taken into consideration whether we are comparing prices charged by municipalities in one locality with the prices charged by private companies in another locality, or whether we are comparing the prices charged before the municipalisation of any undertaking with the prices charged after the change in the management. Under all forms of terminable concessions, the Local Authorities concerned are given the right to buy any undertakings managed by private companies at the end of a concession period at a valuation, the price paid *not* being dependent, as a general rule, on the market price of the shares. But, in starting nearly all industries, there is a certain amount of initial expenditure for which no valuable asset can be shown; and goods must be sold at a loss for a certain period, short or long, after the opening of any works, because the establishment is then suitable for a larger supply than is demanded. This expenditure and these losses are often capitalised as "good-will" in private enterprises; and this "good-will" may count for little or nothing in the valuation of the works at the termination of the concession when the price to be paid by the municipality is being decided. The actual cost of erecting the works will perhaps as a general rule be recovered by the shareholders at the end of a limited concession if the works are then purchased

by a municipality. But in order to enable the company promoter to attract the necessary capital, a good hope must be held out that the unavoidable initial expenditure and losses will also have been recovered out of the profits made before the works could be compulsorily purchased; and, in order to make this possible, the private proprietors must be allowed to charge higher fares or prices than need have been allowed if the concession had been granted in perpetuity. This is, in effect, taxing the goods sold in order to pay off part or all of the unavoidable initial expenditure to the ultimate benefit, not of the shareholders, but of the public as taxpayers or consumers.

(12) But the foregoing is not the only point of difference between limited and perpetual concessions as regards prices. The risk attached to any industrial enterprise is generally considerable, and is, moreover, likely to be greatest during the first few years after its initiation; and whoever undertakes to run that risk must be compensated accordingly. The interest paid to the shareholders in private companies is partly in effect an insurance premium paid to them for taking such risks. If the industry is one which is likely to grow, and this is the normal expectation in all cases, it may be wise to postpone, as it were, the collection of part of this insurance premium to a subsequent period, when the business will have become more lucrative; for, if this is not done, the prices charged cannot be uniform, it being necessary to charge on a higher scale at first in order to collect the same insurance premium out of the smaller volume of business. But if the concession is for a limited period, the

collection of the insurance premium by the company cannot be postponed beyond the termination of that period, and it is necessary therefore to charge higher prices than would have been required under a perpetual concession. For this reason, and for the reason given in the preceding paragraph, it appears probable that the prices charged in municipal trades will be normally lower at first and higher afterwards than the prices charged in private trades working under terminable concessions and initiated at the same date.

(13) Thus far we have chiefly had in view the case of going concerns bought by Local Authorities. But it must be remembered that, if a municipality either builds its own works or buys them ready-made, it is in effect granting to itself a perpetual concession; for there is no one in this case who can buy up the works at less than their cost at any future period. It follows, therefore, that neither the prices charged by a municipality which has built its own works, nor the prices charged by one which has bought the works at the end of a concession, should be compared with the prices charged by private companies working under limited concessions, unless an allowance be made for the effects of this limitation; an allowance almost impossible to make.

(14) Thus far we have been discussing the comparison between the prices actually charged in municipal trades and the prices actually charged in private trades, and considering the corrections necessary to make the comparison a fair one. The comparison which we ought to make is, however, that between the prices actually charged in muni-

cipal trades and the prices which would have been charged had the municipalised industries remained in private hands. This introduces a new difficulty. To make such a comparison even theoretically possible, we must know on what terms the now municipalised industries would have been left in private hands. If we assume that terminable concessions would have been granted to the managing companies, then probably the difficulties already mentioned are all that have to be encountered in the case of municipal tramways, electrical works, and other industries which, when in private hands, are managed under terminable concessions. But the prices actually charged for gas by gas companies under existing conditions afford but an insecure indication as to the prices which would have been charged had existing gas companies been working for many years under terminable concessions. If, on the other hand, we assume that any of the now municipalised industries would have been worked by private companies under perpetual concessions, we are not making the enquiry which is most useful to us; that is if it be our object to compare the relative merits of Municipal Trade and private trade managed under terminable concessions. However, as my object is to show that, on any supposition, the difficulties met with when attempting to make any useful comparison of prices are almost insurmountable, the subject need hardly be laboured any further.

(15) The following is therefore the result of this enquiry into relative prices. Any comparison of mere average prices will very likely be found to indicate that the prices actually

charged by private proprietors are higher than those charged by public bodies. But statistics as to such prices have never been systematically and authoritatively collected and compiled; and it is therefore impossible to say how much higher are the prices charged in private trade. And even if it were possible to indicate the exact relative level of average prices in the two cases, this would not decide the question as to which system of management is really most beneficial to the consumer; for the results of all comparisons between the prices charged by public and private producers are, as we have seen, vitiated for one or more of the following reasons. Municipalities are apt to undertake the management of industries where the circumstances appear most favourable; that is, where it is possible to charge prices low in comparison with the prices charged in other towns. Municipalities may, moreover, be able to favour their own manufactories in ways not open to private traders; as, for example, in developing the lighting of streets by electricity, and in fixing a high price for such services as are rendered to the public; and it is asking too much of human nature to expect that no advantage will be taken of the power of making a favourable show which public bodies thus possess. Local Authorities are all working in effect with perpetual concessions; whereas many companies are tied down by the provisions of concessions lasting for limited periods, and since the bulk of Municipal Trade is of recent growth, higher prices must often be charged in order to reduce the capital account to the amount likely to be obtained if the works are bought at the end of the concession period. Rents are also sometimes paid by private companies, whilst no corresponding deduction is made from the profits of municipal industries. And these limited concessions, at all events near the end of the concession period, often render it impossible to introduce costly improvements which would have the result of making a reduction in prices possible; as, for example, the delay in the change from horse to electric traction on tramways such as was experienced in nearly all our important cities and towns. When all these circumstances are fully taken into account, it is, I think, impossible to say whether the facts of the case are insufficient to compensate for the higher prices probably charged by private proprietors, or whether they are sufficient to more than compensate for them. Moreover, what we ought to ascertain is the prices which would have been charged by private proprietors, and the rents which would have been received from them, had the now municipalised industries been committed to private management; and actual prices and rents, especially in certain trades, afford an insecure guide in any such enquiry. In short, if Municipal Trade be regarded merely from the point of view of the consumer, we are not now in a position to determine which way the balance of argument tells.

(16) Thus far we have merely been considering price without reference to quality; and this is all that need be considered if by price is meant the price of goods of a given quality. As to electricity, the voltage ought to be readily measurable, and "quality" can hardly introduce any serious elements of difficulty into statistical comparisons. But this cannot be said to be the case with regard to any

other goods commonly manufactured by public bodies. We might be accurately informed of the relative illuminating power of different supplies of gas; but this would leave unsolved not only all questions connected with the adjustment of relative prices to allow for such differences, but also the still more difficult problem as to which is best for consumers generally, a gas of high or a gas of low illuminating power. Consumers who burn gas in stoves or in engines, or with incandescent burners, are best served by a cheap gas of low illuminating power; whilst other consumers prefer a gas of higher illuminating power, even if dearer. The difference in value to consumers of water more or less completely softened would also introduce similar difficulties into statistical returns of the cost of water to consumers, if such returns were ever made. Then as to tramways, the greater the number of cars running per hour, and the better the pace and accommodation of these cars, the higher must be fares; but differences like these in the quality of the services rendered to the public cannot possibly be included or allowed for in statistical tables. In fact, comparisons as to the qualities of goods supplied by public and private enterprises appear to me to involve even greater difficulties than any comparisons as to prices pure and simple.

(17) But, it may be said, are we not striving at too great accuracy? Should not all such questions be regarded broadly, without reference to results in detail? It is, no doubt, always somewhat objectionable in any enquiry to enter into details which are not necessary to enable the questions put to be definitely answered. But can any conclusions

be drawn with regard to the financial aspects of Municipal Trade without enquiry in detail? In the case of gas-works, for example, we see that there is only a prospective net profit on municipalisation whilst the debts are being redeemed of about one-half per cent., judging by the average of the whole returns of English municipal enterprise, and assuming them to be correct. Is this so wide a margin that minor considerations may be neglected? If it could be proved that the prices charged by municipalities have been $2\frac{1}{3}$ per cent. higher than those which would have been charged had all municipal gas-works remained in private hands, then it could be shown that the statistics of this trade would indicate that without a rise in prices there is no prospect of making any net gain by the municipalisation of gas-works now in private hands until the debts thus incurred were completely redeemed; whereas if it could be proved that municipalities have been charging $2\frac{1}{3}$ per cent. less than private traders, then this prospective net gain at existing prices would be really twice as large as the statistics indicate it to be. Moreover, if it be remembered that the price of gas differs in different towns by more than 100 per cent., and that the quality of the gas also differs to such an extent as to make a correction in price of 15 to 20 per cent. sometimes necessary to allow for this difference in quality, it becomes evident that this margin of $2\frac{1}{3}$ per cent. is not very great. Again, if it be permissible to forecast the future from the past, and if it be assumed that no other deduction whatever should be made from the gross profits shown by the Local Government Board Returns, a reduction in the prices charged in future by municipalities of only 8 per cent. on the present average prices would result in the whole of the debt created for future municipal enterprises having to be paid off out of rates which would not otherwise have been raised. Thus the question of the financial success or failure of Municipal Trade lies within such a narrow margin of doubt that questions of detail with regard to price and quality cannot be excluded from the enquiry.

(18) To summarise the foregoing discussion, it appears that, as a first step towards ascertaining whether the *community as a whole* is likely to gain or not financially by Municipal Trade, we must ascertain the average gross profits made by existing undertakings, and the deductions which have to be made from these profits on account of interest and sinking fund charges. This enquiry as to the probable gain to the *taxpayer* is, as we have seen in the preceding chapter, surrounded with difficulties. The second step is to compare the prices now charged by Local Authorities with the prices that would have been charged by private companies had the undertakings been committed to their charge. This we have seen constitutes an even more difficult enquiry. Could accurate results have been obtained, it would have been easy, on the assumption that the past may serve as a guide to the future, to calculate from the government returns now available, what is likely to be the gain or loss *to the consumer* from public management in future. And, if the probable financial result both to the ratepayers

and to the consumers could be accurately ascertained, the two might have been combined in order to find the probable financial results of Municipal Trade to the *community in general.* The difficulty connected with this whole enquiry is perhaps best illustrated by the fact that, notwithstanding all that has been written on this question, no one has yet attempted to produce average results based on all the absolutely essential factors of profits, prices, and qualities. But if all questions connected with prices and qualities are put on one side, the result of any enquiry will be valueless as an indication of what the community as a whole has gained or lost by its municipal remunerative undertakings.

(19) In chap. vii. an attempt was made to ascertain on *a priori* grounds what is likely to be the financial result of municipal trading to the nation; and in chap. viii. and in this chapter the statistics relating to English municipal undertakings have been examined with reference to profits, prices, and qualities. It is now necessary to consider whether the conclusions arrived at from statistics and those based on *a priori* arguments harmonise or run counter to one another; and finally to attempt to draw broad conclusions based on this whole discussion.

(20) The first general result arrived at in the course of the foregoing theoretical discussion was that conclusions should not be drawn from the records of single industries; because the financial results of Municipal Trade are largely affected by the element of chance, or, rather, by circumstances which could not have been foreseen; and because

out of the net profits made in each separate industry an insurance fund ought to be formed out of which the losses on all the other industries undertaken by the same municipality should be covered. This conclusion is certainly confirmed and not refuted by an examination of the facts of the case. Judging by the statistics of the past, and assuming them to be accurate, municipalities now buying gas-works may expect to make a net profit of about six per cent. on their investment after the debts thus incurred have been redeemed; and it is probable that those Local Authorities who have undertaken the business of electric lighting had mainly in mind these encouraging results of municipal gas-works when they undertook this new duty. The results of these latter ventures, which at present show an average net loss of over £11,000 a year to English municipalities, certainly do not refute the maxim that it is unwise to base estimates on single instances. Some municipal trades are worked at a net profit, and some at a net loss; and if it were not for the net profits made on municipal gas-works, there would, on the average, be at present a net loss on English municipal undertakings. The whole of the anticipated net profits from the municipalisation of gas-works should not therefore be regarded as being a fund which would be available for the relief of taxation. If silence is to be kept with regard to the losses on electric light, piers, harbours, working-class dwellings, and other services, the profits on gas-works, water-works, and tramways must not be brought forward each as a separate argument in favour of Municipal Trade. No fact has been adduced which shakes the conclusion that Municipal Trade must be regarded as a whole, if its merits and defects are to be fairly weighed.

(21) In order, while drawing general conclusions, to eliminate the effect of fortuitous circumstances, it is therefore necessary to rely mainly on the average results of many municipal trades. But if some common cause has been influencing, or is likely to influence, all industries alike, its effect will not be eliminated in average results; and such results, like the results of single trades, may thus be rendered unreliable as guides for the future. The population has been increasing in almost all English urban districts, and this increase of population has no doubt tended to make Municipal Trade become more and more profitable; but, as there are symptoms of a decrease in the rate of increase in the population, we cannot rely on the increase in average profits in future being as rapid as the increase in the past. Then, again, if Municipal Trade is ever much more extensively undertaken, there will probably be a general rise in the rate of interest on new municipal loans; and, not to mention its effect on non-industrial loans, this will make the average net profits of municipal trades initiated in the future less than the existing average net profits. Hence, though average results must in the main be relied on, they are, nevertheless, liable to be vitiated by the effect of temporary causes affecting many industries alike.

(22) Passing on to average results with this word of caution as to their reliability, we find that English municipal undertakings are now yielding a *gross profit* of 3·8 per cent. on the total capital provided; whereas, on *a priori* grounds, we were

led to expect that the whole of the repayments of principal would fall on the tax-payer; or, in other words, that the *gross gain*, or the gain when all debts are redeemed, would only be about 3 per cent. Thus the Returns at first sight appear to point to a somewhat more hopeful conclusion than theory, and the question remains whether these results are really contradictory, and as to which should be relied on most if they do differ.

(23) The consideration in this chapter of the questions connected with price and quality has only had the indecisive result of throwing a serious doubt on all attempts to compare the financial results of municipal and private trade in the same industry, without even clearly indicating in which direction the probable error lies. The difference between our theoretical and statistical conclusions as to the gain made by municipalities is about 0·8 per cent. on the capital invested, and it is possible that a fair allowance for the difference between the price and quality of goods supplied by municipal and by private enterprises respectively would nearly account for this discrepancy, though, on the other hand, it might make the discrepancy greater. As to most of the other reasons given in previous chapters for doubting the results deduced from the Returns, we can only say that they tend to show that the percentage of gross profits thus obtained is either larger or smaller than the figure which would truly indicate the gain to the community, the facts and arguments being generally too vague to be translated into figures. All that can be done is to summarise the foregoing discussion in order to enable the reader to judge for himself to what

extent his confidence in these figures based on the Local Government Board Returns ought to be shaken.

(24) Three reasons were given for believing that the Returns under consideration afford an unduly unfavourable indication of the future prospects of Municipal Trade. In the first place, the capital on which the percentages of average profits were calculated was the total capital provided *at the end* of the given period, and for this reason the percentages thus obtained are too small. The second reason, to which, however, comparatively little importance was attached, was that in all probability a certain addition ought to be made to the gross profits in ascertaining the gain, on account of the incorrect inclusion in municipal trading accounts of certain expenditure connected with the inspection of the goods supplied. The third and more important point was that the returns under consideration include Baths, Burial-Grounds and Wash-Houses, and that these services cannot be described as trades, since no one anticipates that they will be worked at a profit. Results obtained from these returns cannot, therefore, be accepted without qualification as indicating the profits likely to be made in strictly trading enterprises undertaken by Local Authorities. If it could be assumed that all these services are performed with due regard for economy, an assumption for which there is, I fear, no warrant, the taxation necessary to make up the net losses thus incurred should be regarded as part of the ordinary civic expenditure incurred for sanitary purposes. It is, therefore, perhaps fair that Baths, Wash-Houses, and Burial-Grounds should be struck out of the list for

the purposes of this discussion; an omission which raises the average gross profits on English municipal trades from 3·8 to 4·0 per cent. The omitted services are, however, those which show the greatest net losses of any included in the returns, and in statistical enquiries there is always a certain danger in erasing, on any pretence whatever, the entries which appear at one end only of a series.

(25) Taking 3·8 per cent., however, as the figure representing the gross profit, to which all corrections, positive and negative, should be applied, the most important of the reasons for believing that we cannot regard it as being an indication of the *gains* now being made by municipalities in consequence of their trading enterprises, is that there is every probability that large rents might be drawn from private companies if the now municipalised trades were handed over to them for management. If allowed to manage municipal tramways, private companies would, it is certain, be willing to provide for the interest and repayments of principal of all the capital provided by the Local Authorities, and in addition to pay heavy rents which might, in favourable cases, amount to as much as 2½ per cent. on the capital; and, as many other services could probably also in the same way be leased to private proprietors bound to carry on the business on the same lines as those now followed by the Local Authorities concerned, it follows that a very considerable sum might thus be made to fall into the municipal treasuries. This sum would in any case be available for the relief of taxation, and it should not, therefore, be included amongst the gains made by municipalities in consequence of their trading

enterprises; and this sum, if deducted from the 3·8 per cent. gross profits, might reduce it to 3 per cent., the figure arrived at by *a priori* reasoning as representing the probable gains.

(26) This deduction for possible rents is probably the most important allowance necessary in order to make the statistical returns of remunerative undertakings available for the purposes of this discussion. But, assuming that this correction could be made with accuracy, would the figure representing the profit as thus diminished be trustworthy as representing the gain? It has been stated that the method of keeping municipal accounts is open to criticism; and an examination of the statistics of municipal gas-works has led one careful enquirer to conclusions which indicate that the gross profits shown in that municipal trade should be reduced by about 0·3 per cent. on this account alone. The omission to charge any rent for the use of public offices, or an adequate share of the salaries and pensions of officials, or the full cost of the materials used in the offices and in the manufactories; the method of dealing with depreciation; the lowering of the rating of buildings when they become public property; and the omission of certain items of capital expenditure from the total capital provided: all these are points connected with municipal accounts which have been brought forward as reasons for believing that the true gross profit is not as large as that deduced from the official returns. Moreover, the probable arrest in the growth of the population in future makes it unwise to rely implicitly on the older municipal industries as guides for the future; and certainly the

older municipal gas-works are the most profitable. In the present state of our knowledge it is impossible to allow for these omissions and errors, and thus to correct the statistics of Municipal Trade; but these inaccuracies must not be forgotten when considering how much reliance should be placed on arguments based on these statistics.

(27) Thus there are serious reasons for doubting the reliability of the foregoing enquiry based on the Local Government Board Returns. On the one hand, the percentage of gross profits ought probably to be increased to somewhat over 4 per cent., the most important error being due to the capital being taken at the end of the period of enquiry. On the other hand, there are numerous and weighty reasons for believing that this figure must be considerably reduced before it can be used in estimating the effect on taxation of Municipal Trade. If these corrections in reality amount to somewhat over 1 per cent., and if the gross profit of over 4 per cent. should thus be reduced to a gross gain of 3 per cent. then our *a priori* reasoning and our enquiries based on the Local Government Board Returns, would coincide as to results. If that were the end of our enquiries, both methods would indicate that, as regards finance, we are not gaining anything whatever, and we are not likely to gain anything whatever, as the direct result of Municipal Trade. Somewhat over one per cent. does not appear to me to be an improbably large correction to apply to the gross profits on account of all these errors and deductions, and thus our theoretical conclusions cannot be said to be refuted by an examination of the Local Government Board Returns.

(28) Possibly the divergence between the results obtained from the Returns and the results which *a priori* reasoning would lead us to anticipate may best be illustrated in the following manner. Judging by the returns, English municipalities have invested in round numbers £120,000,000 in undertakings which bring them in a gross profit at the rate of 3·8 per cent. Of the debts and liabilities incurred in raising this capital, £20,000,000 has been paid off or provided for, and £100,000,000 has not been paid off. The capital of £100,000,000 yields at the abovementioned rate a return of about £3,800,000; but against this income there is an expenditure on account of interest and repayments of principal at the rate of 4·2 per cent. on the unredeemed debts to the same amount, amounting to £4,200,000; thus leaving a *deficit* of £400,000 a year. As to the capital of £20,000,000, which has no corresponding debt against it, this yields at 3·8 per cent. an income of £760,000, against which there are no charges. Out of this income of £760,000, £400,000 has to be taken to make up for the deficit on the investment made with that part of the capital corresponding to the unredeemed debts; and this leaves a clear net profit of £360,000 a year. Thus the very existence of this net profit depends on the fact that part of the debts have been redeemed; and this net profit is therefore in part, at all events, interest on money which has been raised by taxation which would not otherwise have been levied, and which has been invested in Municipal Trade.

(29) But this net profit of £360,000 undoubtedly cannot be taken as representing the amount by which taxation is now being reduced

because of these undertakings; for the returns on which this result is based have not been corrected or modified on account of either possible rents or any defects in municipal accounts. According to the results of our *a priori* reasoning, we should expect the return on the capital invested to be only sufficient to cover the interest on the capital borrowed; that is to say, that it would be somewhere about 3 per cent. If this be the true view of the case, the capital of £100,000,000 and its corresponding unredeemed debts are bringing in £3,000,000, and costing £4,200,000, thus leaving an annual deficiency of £1,200,000. On the same assumption, the £20,000,000 of capital, with no corresponding debt, is now bringing in a clear £600,000 a year; thus reducing the deficit on the whole to £600,000 a year. If this really represents the case as it is, this £600,000 a year is the amount of taxation now levied in England which would not be levied but for these municipal undertakings.

(30) Here then we have the two results contrasted; the results derived from an examination of the Local Government Board Returns on the supposition that they need no correction — undoubtedly a false assumption — and the results arrived at by purely *a priori* reasoning. Another statistical method of enquiry was, however, considered in chapter viii., namely the examination of the correlation between rates and remunerative loans in English towns; a method which, in Miss Lee's hands, led to the conclusion that taxation has been neither materially increased nor materially diminished in consequence of Municipal Trade, a result, that is, intermediate between the two fore-

going results. But neither in this enquiry, nor in the results based on the Local Government Board Returns, was any account taken of the price or quality of the goods sold, whereas the figures just quoted as illustrative of the results based on *a priori* reasoning were given on the assumption that the same prices are charged in municipal and in private trades. Considering the great difficulties connected with all statistical enquiries, and considering the many reasons for believing that the results based on the Local Government Board Returns point to unduly hopeful conclusions, it would appear that considerable weight should be attached to the results of theoretical reasoning. All conclusions based on such uncertain and contradictory evidence must be given with hesitation, and it can only be said that it appears probable that in England either municipal taxation or the price of the goods sold by Local Authorities is now somewhat higher than would have been the case had no Municipal Trade existed; and that, merging together the interests of the ratepayers and consumers of the past, present, and future, no very material financial benefit or injury will be felt by the community as a whole as the direct result of existing Municipal Trade.

(31) Looking to the future it can hardly be doubted that, when the existing debts are redeemed, there will be a considerable income derived from existing municipal trades which will then be available for the relief of taxation. But this income will be either in part or altogether the interest on money raised by taxation and invested in municipal trades. For one generation to economise and invest its savings for the benefit of futurity is a most meritorious act, provided

it is performed knowingly. But the fact that the creation of such a fund out of additional taxation raised from either ratepayers or consumers is beneficial in no way constitutes an argument for Municipal Trade; for the funds thus raised might have been made to yield the same return by being invested in other ways; the most obvious investment, if it may be so described, being the repayment of the enormous municipal debts now existing. In looking to the future it must also be remembered that, even if it could be proved that the change from private trade to Municipal Trade has been a financial benefit to the community as a whole, it would not follow that the same beneficial results would be obtained from municipal enterprises initiated in future; for we have seen that there are several reasons why private trade, especially if carried on under a reformed method of control, is likely to compare with Municipal Trade more favourably in the future than in the past.

(32) During the whole of the foregoing discussion on municipal finance the *direct* effects of Municipal Trade have been mainly taken into consideration. It is, however, possible, and indeed probable, that the *indirect* effects are considerably more important; and these indirect effects, though far more difficult to estimate, must be briefly discussed before any attempt is made to draw general conclusions.

(33) It has sometimes been asserted that municipal revenues will be materially increased by these indirect financial results of Municipal Trade. Municipal undertakings, it is said, especially those facilitating the means of locomotion, will tend to raise the value of property, and thus to increase

the revenue derived from rates or other direct taxes. To this contention it may, in the first place, be replied that if the construction of a tramway tends to increase the demand for land and houses in any suburban area, and, consequently, to raise the value of property in that locality, it must, at the same time, in many cases tend to diminish the demand for property in other parts of the municipality, and, therefore, to that extent, to decrease the income derived from the rates. But this rejoinder must not be pushed too far; for it can hardly be doubted that capital suitably invested in facilitating the means of transport does tend to increase the total value of property in the whole area affected. All that can fairly be said on this head is that it may not do so to such an extent as would at first sight appear probable.

(34) The true objection to the foregoing contention is, however, that in reality it begs nearly the whole question. If tramways and works of a similar character are extended under a system of private trading with the same rapidity as they would be if municipal enterprise were prevalent, then it follows that the substitution of municipal for private enterprise will have no effect in tending to raise the total value of property in urban districts. For municipal enterprise to produce any beneficial results in this way, it must be undertaken in circumstances or in localities where private enterprise is not permitted or is afraid to enter. If the more rapid extension of municipal enterprise, which is tacitly assumed as the foundation for this argument, is due to restrictions on private enterprise, then this fact, if it be one, would serve as the basis for an argument in

favour of the removal of these restrictions rather than in favour of Municipal Trade. On the other hand, if the assumed more rapid progress of Municipal Trade be not due to restrictions on private trade, it must be that many of the enterprises undertaken by public bodies are not sufficiently encouraging as regards probable profits to attract private capital.[1] But if so, it follows that the capital which is drawn from the money market by means of loans raised for such unattractive municipal enterprises, would, on the average, have been more profitably used elsewhere if it had not been thus employed; that is to say, that it would have produced more wealth when invested in private undertakings, as would generally have been the case. This conclusion cannot be denied if it be admitted, as it fairly may be, that town councillors are not likely to be better judges of commercial risks than the proprietors of private ventures; for in that case it follows that private enterprises will, on the average, be more profitable than those municipal enterprises undertaken under conditions not sufficiently encouraging to attract private capital. And if the total production of wealth would be greater if the selection of the uses to which capital is to be applied was always left at the discretion of private proprietors, it follows that the total value of property, and consequently the total amount raised by direct taxation, would be greatest in these circumstances. Thus granted for the sake of argument that municipalities develop certain localities more quickly than private traders, this result may be caused by undue restrictions on private trade; and, where it is not thus caused, the total revenue from taxation of the whole country will be decreased rather than increased by this more rapid development.

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[1] M.T.R., Q. 2113.

(35) But the truth is that municipal enterprise is on the average less progressive than private trade. Very few facts can be brought forward in support of a belief in the superior energy or rashness, whichever it should be called, of public bodies; and experience shows that the most progressive nations have always been those which have trusted most to individual efforts. All such rules are subject to exceptions in individual cases; but, if this conclusion be accepted as a general law, the foregoing argument, if used in favour of a general adoption of municipal enterprise, entirely falls to the ground; for so long as progress and private initiative are linked together, so long will the adoption of an extensive policy of municipalisation tend to decrease the value of property of all kinds and, consequently, the sources of both direct and indirect taxation. Thus the question whether public or private trading is the more progressive is a very important one in this financial discussion. For, if it be a fact, as I believe it to be, that private trade advances the more rapidly of the two, then the mere statistical proof that a net profit had been made by municipal enterprise would not be sufficient to prove that taxation had been reduced thereby; for the profit thus made might have been swamped by the effect of the less rapid increase of the taxable value of private property.

(36) It should also be remarked that it would be the private owners of property rather than the general public who would, in existing circumstances,

be the chief gainers from any public expenditure which raised the value of property. To advocate the expenditure, or even the risking of public money, with the avowed object of raising the value of property therefore opens out a wide field for jobbery. It may, of course, be said that some means of diverting the whole of this unearned increment into the public purse should be adopted. But until this has actually been accomplished, all arguments in favour of municipalisation, based on the indirect effects of public expenditure on the revenue, are both weak and dangerous.

(37) Another financial objection to municipal trading is, as already remarked, that it tends to produce extravagance in municipal affairs; an objection the full discussion of which is beyond the scope of this volume. It has been said that if London were to go in for all the municipal enterprises undertaken by Huddersfield, for example, the result would be "to increase its "debt at once by the gigantic sum of nearly "£200,000,000, or nearly one-third of the National "Debt."[1] Municipal debts may, therefore, be largely increased in future as the result of Municipal Trade; and a given sum of money, if borrowed after any such great increase in the debt of a municipality, would bear a materially smaller proportion to the total debt than would be the case if it were borrowed at present; and the loan would therefore appear to be a less important matter. Any opposition to new loans will probably, therefore, be weakened by any wide extension of Municipal Trade. Public bodies, like individuals, easily drift into bad habits; and if the habit of

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[1] M.T.R., Q. 2606, Mr D. H. Davies.

raising money by loan with little regard to the total indebtedness of the municipality is acquired, the expenditure for non-remunerative as well as for remunerative works is certain to increase.

(38) The final result of this long discussion is to make it probable that, as compared with private trade under proper control, the *direct* result of Municipal Trade is likely to be that one generation will be taxed for the benefit of future generations; and, merging together the interests of existing and future citizens, that the net result to the nation will be neither a considerable financial loss nor a considerable financial gain. As regards the *indirect* results of Municipal Trade, it appears that, if it were to be much more extensively practised, the check thus produced on the growth of wealth, and the tendency to extravagance thus created, would cause a material diminution both in the national wealth and in the national and municipal revenues. From this we may at least conclude that, though great pecuniary sacrifices are sometimes justifiable for public purposes, it is most unwise to allow the hope either of making a profit, or of producing a corresponding reduction in prices, to influence our decisions as to whether any industry should be municipalised or not. The question whether it would be for the general good that a public body should undertake the management of any trade should, therefore, in the first place, be considered solely with reference to such questions as public morality, health, and convenience; and it is only when a decision has been provisionally given in the affirmative that financial considerations should be allowed to weigh in the balance before a final judgment is made.

X

COMPETITION AND PROTECTION

(1) MANKIND, it is urged, is on the whole benefited by a free competitive struggle between different industrial enterprises, and municipalisation will produce harmful results by lessening this struggle. This is the argument about to be examined; and, in so doing, it must be remembered that those who accept this general conclusion need not necessarily condemn the public management of all industries. It is merely the addition, in each case, of an extra weight, great or small as the case may be, on the adverse side of the scales before making the final test.

(2) Those who affirm that the results of industrial competition are on the whole bad as compared with the results which might be obtained by the introduction of some other practicable system are in fact pronounced Socialists; and to consider whether they are right or wrong in their conclusions would necessitate the consideration of the whole question of Socialism. Such a controversy would be beyond the scope of this volume; and, although most of this discussion has a direct bearing on the questions of Socialism, yet it must be considered to be mainly addressed to those readers who do not admit the practicability

of any great or sudden socialistic revolution, but who are, nevertheless, anxious to consider every socialistic proposal separately on its own merits.

(3) Here, therefore, it is unnecessary to do more than briefly summarise the advantages and disadvantages resulting from the struggle which inevitably accompanies our modern industrial system. Free competition has the effect of placing goods and services where they are most wanted with greater certainty than is possible with any other system; it best insures that the goods supplied are of the kind wanted; and it keeps down prices more effectually than any legal enactments, thus widely distributing the benefits of industrial progress.[1] Many of the arguments in favour of free competition are similar to those urged in favour of free trade; for both the curbing of competition and the levying of an import duty may have the effect of keeping alive an industry which free trade, in the widest sense of the word, would kill by the introduction or manufacture of cheaper or better goods. The world at large is injured by high prices being sustained in either of these ways, especially when high prices have not even the merit of producing greater profits, and are simply the result of the survival of obsolete or wasteful methods of production. But probably the most important of the many reasons why our competitive system is, on the whole, beneficial is that under it the fittest win their way to the front more surely than is possible under a more centralised system; and the progress of the world

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[1] "Economics," Hadley, p. 397.

depends mainly on the fitness of those who are to be found in the leading ranks. "The industrial "success of this country, whether it be manu-"facturing or commercial, has been attained by "individual energy impelled by the motive of "individual ambition and profit."[1] To prove that a socialistic reform would do *immediate* good would not disprove that the *total* effect would be evil; for free initiative and progress have ever gone hand in hand.

(4) Few are now blind to the evils of the existing system. The fittest winning in the race often means the degradation of the weakest; and the struggle is a cruel one. Much of the labour of mankind does nothing but harm; and even the harmless efforts, such, for example, as the reasonable display of advertisements, which do not actually tend to produce useful things, but which necessarily accompany our industrial system, represent an appalling waste of human energy. But, even if we freely admit the cruelty and wastefulness of modern industrial life, we shall not necessarily be illogical if we firmly hold to the belief that no socialistic system yet proposed could be introduced with advantage. All that can be done is to try to mitigate the evils of competition without unduly checking the progress of the world.

(5) The industries most commonly municipalised are generally described as monopolies, and it may be urged that, where from any cause whatever an industry has become a complete monopoly,

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[1] *Journal of the Royal Statistical Soc.*, Sir J. Henry Fowler, M.P., September 1900, p. 393.

the resulting evils cannot be increased by its being purchased by a public body. Competition is practically impossible in the case of the supply of water for domestic purposes in developed districts; for no substitute for water exists, and it has been found impracticable to establish rival enterprises in the same area. But can this be said of any other municipal undertaking? Municipal tramways, not to mention their competition with the use of human legs, are now run in competition with omnibuses; and they may in future have to compete with motor cars. Municipal gas-works frequently compete with private electrical works, and, to a certain extent, with oil lamps for lighting. Municipal electrical works compete with hydraulic works for the supply of power. In other municipal enterprises the competition is more obvious; and I know of no instance, except the supply of water for domestic purposes in developed districts, where it is altogether absent.

(6) Competition means an effort and a struggle, and all competitors are under a strong temptation to protect themselves as well as they can. The difference between municipal and private traders is not that they are actuated by different motives; for both will always seek protection. Municipalities have, however, in many ways, greater powers and opportunities than private traders of checking competition, and they will take advantage of them exactly as private traders would do were they able. They can more easily buy up their rivals, and thus amalgamate two competitive businesses; they have peculiar advantages because of their great resources in attempting to crush or to frighten

away their opponents; and they can use their administrative powers to protect themselves. Except in the case of water supply, municipal enterprise will always tend in one of these ways to produce some injurious results by limiting competition.

(7) The commonest instance of competition being checked by the purchase of rival industries by the same municipality occurs when a public body managing gas-works also buys up electric lighting works. Where this takes place, an end is put to effective competition; for, if electricity is manufactured as an adjunct to gas, the municipality, instead of "offering it and urging it," will only supply it where it is asked for.[1] The fact of owning the gas monopoly may, it is true, make it more likely that a "city could manage electrical works in conjunction without much financial risk or danger"; but this absence of risk will assuredly be accompanied by a retardation in the rate of progress.[2] There may be *rivalry* between the committees managing the two enterprises, or between different Town Councils; but, as a stimulus to trade, rivalry is far less effective than the true competition arising from the desire of proprietors for increased profits. Had both these methods of illumination been universally under public management, it is very doubtful if the experiments in incandescent gas would have been pushed with the same vigour as has actually been displayed by the private companies concerned; less progress would have been made; and the public would, in this way, have suffered from the check on competition resulting from the

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[1] M.T.R., Q. 2731, Mr S. Chisholm.

[2] "Municipal Government in Continental Europe," Shaw, p. 325.

two industries being municipalised. Competition would be checked in a similar manner if both these industries in any locality were managed by one private company; but, as far as I know, this never occurs.

(8) The check on competition due to different enterprises being placed under one management would become very serious if ever the field of municipal enterprise were much more widely extended. At the present time, however, more harmful results arise from the use made by municipalities of their various powers in order to hinder private traders from competing against industries which are now or which may possibly in the future be placed under public management. As already remarked, all traders, whether private or public, desire protection; but municipal bodies can base their demands for it on pleas which private traders cannot use. "Having spent the ratepayers' money "on laying down expensive plant," municipalities "claim that it is against all municipal practice to "allow competition from private companies"; and it is said that Local Authorities have been encouraged and assisted by Parliament in borrowing large sums of money for electric lighting undertakings "on the understanding that there "should be no competition."[1] It may be doubted whether any Parliamentary understanding exists; but it can hardly be denied that there is some force in these arguments. The Municipal Corporations Association, a powerful body capable of influencing many Members of Parliament, has even gone so far as to affirm definitely "the principle

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[1] M.T.R., Q. 848.

"that where Local Authorities have, with the "sanction of Parliament, established, or, are in the "course of establishing, undertakings for public "benefit, and have not failed in their duties, it is "not right or expedient that powers should be "granted to companies to compete with them"; and the advocates of Municipal Trade are able to influence Parliament through the agency of such associations in their endeavours to obtain protection for industries under public management more effectively than private traders can do with the means at their disposal. Municipal Trade is, therefore, more protected than private trade; though the evils arising from the resulting limitation of competition are not one whit less serious in the one case than in the other.

(9) The direct effects produced by the opposition of municipalities can, perhaps, best be seen in the case of electric lighting. Before private traders can get the Provisional Orders which are necessary to enable them to supply electricity in any district, the consent of the Board of Trade must be obtained; and, although the Board of Trade can dispense with the consent of any Local Authority, they hardly ever do so. Municipalities can, therefore, as a rule, effectively oppose the granting of these Orders, and, when there are municipal gas-works in the district, this opposition is often forthcoming, the refusal to give consent being sometimes avowedly grounded by the Local Authority on "the very "large amounts which they have expended on their "gas undertaking."[1] Moreover, where there is no thought of protecting gas-works, Local Authorities

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[1] M.T.R., Q. 1670.

often appear to consider that they may want to undertake the electric lighting themselves at some future date, and, with this possibility in view, they oppose private companies "in all sorts of ways." Opposition of this character, it is said, has "very "seriously retarded the progress of electric lighting," many places having been for years without it where otherwise it would have been available.[1]

(10) Another possible method of safeguarding municipal gas-works from competition is for a Local Authority to obtain a Provisional Order under which municipal electric lighting works could be established, and, having obtained these powers, to let them remain unused. This would certainly prevent private companies from entering the field for some time, and might keep them out for many years. In thirty-seven localities in Great Britain and Ireland, where Provisional Orders had been granted before 1896, no electrical supply was available at the beginning of 1900; and it is difficult to resist the conclusion that a few of these Orders were taken out merely with the view of protecting the Municipal Gas-Works from competition,[2] and many with the idea of keeping the ground clear in case the Local Authorities should in future wish to do the work themselves.

(11) In many cases, private companies desiring to undertake various enterprises are either obliged or think it expedient to endeavour to obtain a Private Act of Parliament granting the necessary powers; and in such cases Local Authorities have excellent opportunities during the progress of the

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[1] M.T.R., Q. 795, Mr Sydney Morse. See also Qs. 1361 and 1556.

[2] *Ibid.*, Qs. 1556, 1310, and pp. 465, 466.

bills of endeavouring to avoid the proposed private competition. The delay caused to various projects for the distribution of power by electricity may be mentioned as an illustration of the obstruction to industrial progress thus rendered possible. In 1897 and 1898 certain bills were deposited with the view of enabling private companies to erect central generating stations for the supply of electricity, from which it was to be distributed over wide areas chiefly for motive power. It was believed that in this way certain decaying industries in small towns and villages might be revived; and several Local Authorities were consequently favourably disposed towards the project. But an organised opposition, originating with persons connected with the large cities within the area of distribution, succeeded at all events in delaying the progress of this movement, thus causing a considerable loss to the promoters and discouraging similar enterprises. Much of the opposition in this, and in other instances which might be quoted, was probably based on rational grounds; but in many cases the Local Authorities appear to have allowed their zeal as possible future manufacturers to outweigh their discretion as representatives of all classes inhabiting the localities concerned.[1]

(12) It is only when competition is conducted on even terms that the best results are obtained; for, if the contest is uneven, the fittest may not survive. Both the administrative powers and the

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[1] "Report Electric Energy (Generating Stations and Supply)," House of Commons, 213, 1898; "Traction and Transmission," April 1902, p. 241; M.T.R., Qs. 526 and 2590. As to Mond Gas Bill, see "Traction and "Transmission," December 1901, p. 225, and January 1902, p. 21; *Times*, 5th September 1902.

great resources of municipalities give them great advantages over private traders; and their success, where there is competition, is not therefore a proof of the superior quality of the work performed. Some engineers believe that tramways will be wholly or partially superseded by motor cars, and that, to accommodate this traffic, the roadway should be as smooth as possible. Should this prophecy prove to be true, those municipalities owning tramways may lose revenue by this competition, and they will therefore be tempted not to hurry on the necessary changes in the roadways; whereas in localities where private companies are the owners of the tramways, no such temptation would exist, and the improvements of roads would probably be more rapidly effected to the real advantage of the public.[1] Where municipalities control the police, and are in consequence ultimately responsible for the regulation of the traffic, it is not impossible that these powers may be used to favour municipal tramways in their competition with omnibuses, even if it is not deliberately intended thus to make the competition uneven. It is the rule now for Local Authorities working tramways to take powers in their bye-laws to carry a certain number of passengers in emergencies in excess of the interior seating accommodation; a practice which their police would probably prevent if attempted by competing omnibus proprietors. To obtain further evidence of the effect of the advantage possessed by municipalities, we have merely to turn to the Report of the Joint Committee on Municipal Trading. The Corporation of Dublin, for example, is said to have obstructed a private electric tramway company to such an extent as to induce them to agree "not to supply "electricity to anybody without the consent of "the Corporation," thus safeguarding the municipal electric lighting works from competition.[1] Glasgow is said to have obstructed a private telephone system by refusing to grant facilities with reference to way-leaves "which would have enabled improve-"ments to be made."[2] And, as an example of the way in which the great riches at the disposal of municipalities affect competition, the case of the Glasgow cross-river traffic may be mentioned. A private company introduced a Bill to enable them to construct a tunnel under the river, and the Corporation, having failed in their Parliamentary opposition, started a horse ferry at fares "reduced "to the vanishing point," with the object, it is said, of crippling and crushing out the company.[3] There may have been other grounds than those mentioned for the action of the above-mentioned municipalities; but, even if the circumstances to be considered in each case have not all here been mentioned, these instances prove that Local Authorities have powers which give them great advantages in any competition with private traders, but which in no way affect the quality of the goods or services supplied.

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[1] M.T.R., Q. 1318.

(13) Thus it is certain that harmful results have actually arisen from the opposition of municipalities to private competition. But it must be remembered that the indirect and invisible

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[1] M.T.R., Q. 1444, Mr W. M. Murphy.

[2] *Ibid.*, Qs. 3471, 4045, and 4368.

[3] *Ibid.*, Q. 3444, Mr James Kelly.

effects are often the most important. A considerable amount of labour and some expenditure are necessary before the promoters of private enterprises are even in a position to ascertain whether a municipality will or will not consent to the issue of a Provisional Order. Still more money has to be expended before it can be ascertained what amount of opposition will be offered to a Private Bill in Parliament; and any opposition that is offered, even if unsuccessful, will greatly increase the cost of such undertakings. The stronger the desire for Municipal Trade in any district, the more probable it is that private enterprises, requiring Bills or Orders, will be opposed; and the more probable is this opposition, the less likely is it that promoters will be willing to risk all this preliminary labour and expenditure without which nothing whatever can be done. It is almost impossible to form an estimate of the ultimate effects thus produced; but it appears to me probable that the influence of these invisible checks on industrial progress due to the fear of municipal opposition is considerable.

(14) It has also been urged with great force that the check on trade arising from municipal opposition has another extremely important indirectly injurious effect. It cannot be denied that English towns are far behind the times as compared with several other countries in the matter of electric lighting and electric tramways; and one of the indirect results of this backwardness is said to have been that the manufacture of certain electrical fittings has been almost driven out of the country. It is urged that electricity is far more used in

the United States than it is with us, because it has not been obstructed in that country by municipal opposition; and, as trade is generally most successful where it has the advantages of a first start, and where its volume is greatest, English manufacturers have been in consequence worsted, so it is said, in their contest with their American competitors. Other circumstances have probably helped to produce this result; but the fact that "a very large proportion of the electrical apparatus "is now being imported from America" does appear to be largely due to the opposition which electrical tramways and electrical lighting have received from the municipalities of the United Kingdom.[1]

(15) Thus any limitation of competition may produce both beneficial and harmful results, the net result being, generally speaking, very harmful. Some competition is possible even with trades which are usually described as monopolies, because other commodities can be used in substitution for the commodity supplied; the sole exception probably being water. Both public and private traders will seek protection against competition; but municipalities will be more successful than private companies in their endeavours to shelter themselves. Local Authorities can defend themselves against would-be rivals by opposing bills in Parliament, by refusing consent to Provisional Orders, or by obtaining such Orders with or without the intention of using them; and they may be able to stop actual competition by buying out established competitors. Even the possibility of any such proceedings on the part of public

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[1] M.T.R., Qs. 1180 (Mr Emile Garcké), 1305, 1450, and 875.

bodies produces a deterrent effect on enterprise; an effect which is not confined to the trades primarily affected. In fact, of all the services usually municipalised which may truly be described as trades, domestic water supply is the only one in which the monopoly is so complete that no harm whatever can be done as regards the limitation of competition by municipalisation.

(16) In considering the influence of competition, we have thus far been discussing the direct and indirect effects of the municipalisation of trades tending to become monopolies. Municipal Trade appears, however, less and less likely to be confined within these bounds. The management of a monopoly such as the supply of gas by a municipality, necessitates even at the present time a certain amount of competition in the sale of coke and of other residuals; but when, as at Sheffield, powers are obtained for the manufacture of electrical fittings, no necessity can be pleaded for thus entering directly into competitive trade.[1] But it is rather with regard to future possibilities that the study of all questions connected with the municipalisation of competitive industries is an urgent necessity; for public bodies have already asked for powers to undertake the manufacture of electric dynamos, saddlery, coal supply, and pawnbroking, etc.; and these demands must be regarded as true guides to the direction in which public opinion is drifting at present.[2]

(17) As already remarked, all traders seek pro-

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[1] M.T.R., Q. 2993.

[2] Lord Avebury quoted in *Journal of Royal Statistical Soc.*, September 1900, p. 391; also M.T.R., Q. 162.

tection. But with competitive industries, competition is necessarily more to be feared than in the case of monopolies, and the desire to avoid it will be even more keenly felt. The administrative powers of Town Councils and their influence with the Legislature give them great facilities for checking competition in the case of monopolies; and the means of obtaining protection are likely to be further increased with any increase in the field into which Municipal Trade enters. The advocates of public management have already laid down the general principle that *powers should not be granted* to companies to compete with municipal enterprises undertaken for the public benefit; and it is but a slight change from this attitude to demand that existing companies should be *prevented* from competing with established municipal enterprises, all of which will assuredly be declared to be for the public benefit. The open advocacy of protection for all municipal trades is not improbable, because, for the following reasons, protection for established municipal trades can be urged with peculiar force. Trades tending to become monopolies, such as the supply of gas, water, and electricity, and tramways, are but comparatively little influenced by bad trade; but, with competitive industries, the works may lie half idle for months during periods of commercial depression. At such times the profits would cease to be sufficient to pay the interest on the loans; the ratepayer would grumble at the deficiency; and the municipal workman would use his power as a voter to ensure that somehow or other full work should be resumed again. Statutory protection would very likely be sought, and very possibly obtained. If no statutory protection were forthcoming, trade might be stimulated by prices being reduced below the profit-making level, municipalities thus gaining a great advantage as regards volume of output over private competitors; and, when the ratepayers discovered the effect of this reduction on the finances of the municipality—if they ever did discover it—they might become still more eager for protection. At all events, if competition were checked in no other instances, it certainly would be limited as regards the supply of goods to all municipal and to many other public institutions. A Board of Guardians, for example, may now have a dozen bakers to choose from for its bread supply; but, if a municipal bakery were established in the same district, to say the least of it, the competition between it and its private rivals would be conducted on most unequal terms. Again it is illegal for a municipality, when managing electric lighting works, to force the consumer to adopt any special form of fittings; but when the municipality is also a manufacturer of fittings, it may well be doubted whether this prohibition will be effectively maintained, or whether the consumers will not lose some of the advantages arising from their right to choose from amongst many makers.[1] In short, if ever Municipal Trade invades the field of competitive industry to any great extent, it appears probable that municipalities will acquire additional means of protecting themselves in ways which will seriously interfere with the freedom of trade.

(18) If, as we have seen, the municipalisation of any industry whatever will produce a certain

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[1] See "Traction and Transmission," March 1902, p. 161.

check on competition, the harmful effects of this check will be proportionate to the possibility of free competition in its absence. This is so evident that it hardly requires demonstration. Where competition is free, purchasers have a wide choice of goods manufactured by different firms; and, the wider this choice, the more probable will it be that, if one manufacturer be selected on grounds other than that of merit, the goods supplied by him will be inferior in quality to the best that could be obtained at the same price elsewhere. Moreover, if an artificial monopoly be created, bad management may flourish undetected, or, at all events, unreformed; whereas, in a wide field of competition, each individual manufacturer must keep his goods up to the mark, or be beaten out of the trade. It is obvious, therefore, that the wider the choice would be if trade were free, the more will protection act like a tax on the consumer; the more it will lessen his chances of getting the article he wants; and the more likely it will be to increase those evils which are always felt under a centralised system. Municipal Trade is, in fact, likely in this respect to be proportionately more harmful as the trade is naturally more free.

(19) As regards the sale of goods, the entry of municipalities into competitive trade is so recent that it would hardly be expected that the evil results would be as yet apparent. Granted that the municipalisation of a monopoly is beneficial, then the *sale*, not the manufacture, by a public authority of any mere accessories to the main product may present considerable advantages and but few disadvantages; that is, if no one manufacturer is unduly

favoured to the detriment of others. This may be true as regards the *sale* of gas and electric fittings, when once the gas and electric works have been municipalised. But even in such cases some harm may be done. In Glasgow, for example, the supply of stoves is said "not to be deemed a permanent "feature of the gas department, but merely a passing "bit of semi-commercial, semi-philanthropic enter-"prise to stimulate the use of gas as fuel in the "abodes of the poor."[1] If this be truly the policy of the Glasgow Corporation, it may be noted in passing that the temporary establishment of any industry is hardly ever economical. But, as to the question under discussion, the point to be considered is the probable result of these efforts if, as some of us believe, gas cannot compete on even terms with coal for cooking purposes, and if the poor have been induced by this artificially stimulated sale to introduce a more expensive method of cooking into their homes. To permit competition to be free is generally the best philanthropy, because free trade makes it most probable that the consumer will obtain the cheapest and most suitable article.

(20) It is, however, by limiting the number of actual manufacturers of goods that any check on competition is more likely to do harm. Municipalities, it is true, have thus far almost exclusively confined their productive works to monopolies, and we have therefore practically no experience to guide us as to what would be the results of the manufacture by public bodies on a large scale of goods the trade in which is naturally free. It can only be said that the foregoing theoretical

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[1] "Municipal Government of Great Britain," Shaw, p. 121.

arguments indicate that the resulting evils would be great, a conclusion which cannot be refuted by facts.

(21) In discussing the effects of competition, attention is generally directed to the struggle between rival manufacturers in the disposal of their goods in the market. But there is another form of competition, the competition in *starting* new industrial enterprises; and the evil effects of any limitation of this competition by municipalities would produce, perhaps, even more harmful results. There is the struggle between inventors and others to induce financiers to take their rival projects into consideration; there is the struggle between architects and engineers to get the widest reputation for designing the most suitable works; there is the struggle between rival financiers to induce the public to invest their money in the schemes thus elaborated; and all these rivalries may be included under the title of competition in construction, as opposed to competition in production. It has been seen that many industries invariably tend to become monopolies when once established; but the business of establishing these same industries is not necessarily monopolistic. A private company, by laying down a tramway, acquires the *monopoly of the tramway traffic* along a certain route; but there is no reason why any private company should acquire the *monopoly of constructing tramways* in any district. When a municipality buys out a gas, water, or electric company, it is only the substitution of the new managers for *one* other managing body; but when a municipality builds its own works, *many* competitors may be thrown out of the field of

competition. Thus municipalisation is far more likely to do harm by limiting competition in construction than by limiting competition in production; and competition in construction should always be as free as possible.

(22) Whenever municipalities undertake the management of industries, some of the evil results of a centralised system will be apparent; but these harmful influences will be most strongly felt if public bodies interfere with this competition in construction. One of the worst results of any such interference arises from the consequent diminution in the number of persons who are in a position to take any part in the initiation of commercial enterprises. When a municipality is considering the advisability of building any works, or of establishing any industry, there are few persons consulted or concerned in the technical questions on which the success of the schemes so largely depends; and the various decisions may all, in fact, really rest on the advice of one borough engineer. On the other hand, when such matters remain in private hands, the number of persons who are considering the possibility of starting such new schemes or works will be far greater; for various proposals may be under the consideration of different promoters at the same time; and private companies, being less tied than public bodies to appointed technical advisers, will be more ready to call in outside technical experts, or to consider their proposals. If a public authority is omnipotent, it is necessary to persuade that one body and its small staff of technical expert advisers that a scheme is good before the enterprise can be

started; whereas, to insure that result under free private trade, all that is necessary is that any one of the many groups of men habitually undertaking such enterprises should be convinced of the soundness of the proposal. No doubt a public body, with its superior facilities for raising money on loan, if it be once thoroughly aroused, can initiate works with greater ease than a private company. But this advantage by no means compensates for the many disadvantages arising from the loss of the widespread power of initiative which can only exist under free private trade. The probability that the necessary energy and that the most suitable proposal will be forthcoming depends in fact on how widely the net is spread; and the net cannot be very widely spread under any centralised system.

(23) Neither the benefits of free trade nor the evils due to centralising influences show themselves to the full extent immediately after any change of system. The habit of forming voluntary associations of private individuals for commercial enterprises is but slowly acquired and but slowly destroyed; and the extent to which it exists depends not only on the amount of freedom given to the individual trader, but also on the length of time during which that freedom has lasted.[1] The evil effect of the introduction of centralised institutions is therefore cumulative; and if, as in England, Municipal Trade is only a recent and a not very widespread growth, and has, as a rule, been confined to the management of works created by private companies, it is probable that the harmful influences now under consideration

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[1] "L'Etat Moderne et ses Fonctions," P. Leroy-Beaulieu, p. 240.

have hitherto been little felt. We must compare our own country with others which have for long been ruled on bureaucratic lines in order to detect the symptoms of this disease. We are told by a French author, for example, that "none of the "great improvements in artificial channels of communication or in means of transport, which have "been introduced within the last fifty years, have "originated in France—macadamisation of roads, "railroads, locomotives, suspension bridges, steam-"boats, etc., all are the work of the free and independent engineers of England and America."[1] All such comparisons are somewhat inconclusive; but I cannot doubt that a very serious impediment will be placed in the path of progress if municipal bodies enter largely into the field of constructive enterprise.

(24) The difference in the conditions under which competition in construction, and competition in production usually take place, though it has not generally been fully recognised, has, nevertheless, had a marked influence on the scope of Municipal Trade. At the first introduction of any new industry in which a local monopoly can be created there is, when trade is free, a keen competition to reap the rewards which may come to those who succeed in obtaining the necessary concessions; and progress is often very rapid. At first the public instinctively feel the benefits they receive from the struggle between the competitors. At a later stage, when the ground is largely occupied by private companies, the troubles due to the

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[1] "Dictionnaire d'Economie Politique," quoted at p. 75 of the "State in its Relation to Trade," Lord Farrer, 1883.

establishment of monopolies begin to be felt, and the cry for municipalisation is raised. Thus the municipal movement has not, as a rule, been called into activity until the period of competition in construction is over; that is, until after the period during which any hindrance to competition would have been most harmful. Unfortunately, whilst avoiding the worst of the evils due to municipalisation, the opportunity of imposing suitable regulations on private companies has often been neglected.[1]

(25) It has been seen that one of the most attractive pleas in favour of municipalisation is that large profits may thus be made, and that the burden of taxation may thus be proportionately lessened. Unsuccessful private enterprises are seldom bought by Local Authorities; and, as to enterprises the success of which is an established fact, the risk involved in municipalising them is comparatively small, whilst the prospect of making great gains is correspondingly remote. But we now see that centralising influences are most harmful if they are active during the period of competition in construction, and if, in consequence, public bodies replace private firms in the actual construction of works. Those who advocate Municipal Trade on the grounds of public finance have, therefore, this alternative to face: either they must hope to establish a centralised system at the period at which it would be most harmful; or they must abandon the prospect of even moderately large average profits, whilst, it is true,

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[1] It is interesting to note that Miss Lee's investigations, mentioned in chapter viii. par. 2, indicate that the expenditure on remunerative work is *less* in districts where the population is rapidly increasing than in more stationary districts.

gaining a corresponding immunity from large losses.

(26) Thus, municipal enterprise, by interfering with competition, will produce injurious effects in proportion to the possibility of trade being free when in private hands. Not only is this the case, but it is generally true that, in comparison with private enterprise, municipal management is likely to be less successful in industries where competition is possible than in trades tending to become monopolies. Good management, special knowledge, and initiative are beneficial in all trades. In the case of a monopoly, however, the managing body may be deficient in these qualities and yet the business may appear to suffer but little in consequence; because, being a monopoly, it will not be much, if at all, injured by competition; and the harm that is done will not be very noticeable because comparisons with similar industries elsewhere cannot readily be made. On the other hand, with a truly competitive trade, such as the manufacture of electrical fittings, any considerable deficiency in the necessary qualities in the managing body will simply bring the business to a standstill, to bankruptcy—or to protection. Far greater and more varied technical knowledge is required in most competitive industries than is necessary in many of those monopolies most frequently municipalised; and, even if a Board of Directors is as technically ignorant as the Committee of a Town Council, its members will, as a rule, possess more of that most important of all business qualities, the knowledge of the extent to which others should be trusted in order

to obtain the best results in the long run. Boards of Directors know better when they should trust, and when they should neglect the advice of their expert advisers; and, when they do neglect that advice, they will act on their own opinions with more boldness. The two opposite qualities of trust and initiative are those most wanted in competitive trade; and, although it may perhaps be an exaggeration to say that municipalities have "never invented or initiated anything, either with "regard to tramways or gas or electric lighting," the only trades they have undertaken to any considerable extent, yet it can hardly be denied that the absence of trust and initiative are characteristics generally observable in all services under public management.[1] In fact, as pointed out in a previous chapter, the average management of Municipal Trade compares in these respects somewhat unfavourably with the average management of private industries; and, if this is the case, it is obvious that the harmful results of municipalisation will be more felt in competitive trades than in monopolies.

(27) There are, moreover, special reasons why it is difficult for municipal managers to enter into a competitive struggle with private opponents. Municipal Trade always involves some risk of an increase of taxation falling on the ratepayers, and there will consequently always be some objections raised against any trade being municipalised which is not for the good of *all* the citizens *within* the taxable area, or which is for the benefit of *any* citizens *without* that area. The not unnatural

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[1] M.T.R., Qs. 619 (Hon. E. Chandos Leigh), and 1132.

dislike felt by Local Authorities of incurring a risk without any corresponding benefit to any or all of their constituents will, in fact, often put some restriction, great or small, on the management of municipal trades. The effect of such influences may be seen in the electrical industry; though they might be even more observable in a truly competitive trade. Electrical works are beneficial to all living within the municipality owning them when they are used to supply electricity for the lighting of the streets, but not when used to supply electricity for the lighting of private houses, or for motive power in private manufactories; and, for this and for other reasons, some cities, like Paris, only undertake the manufacture of electricity for public purposes.[1] But this restriction in the field of their enterprise must make the business uneconomical; because, the larger the works, the less costly will be the manufacture, and still more because, in order to produce electricity at the lowest cost, the machinery must be run as continuously as possible. For this latter reason, electric lighting works should find a market for their electricity during daylight, and this can best be done by selling it for motive power for lifts and other machinery, a trade which would certainly only be directly beneficial to a small minority.

(28) Bargaining is also a matter of exceptional difficulty in trades managed by public bodies. For example, the bargaining which must take place in the above-mentioned supply of electricity for motive power, may, it is easy to see, open the road to jobbery; and both the fear of the accusation of

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[1] "Municipal Government in Continental Europe," A. Shaw, p. 51.

jobbery, and the endeavour to prevent it, will in such cases be apt to lead to the laying down of general regulations as to the sale of electricity manufactured by municipalities. An attempt may be made, for example, to regulate prices in this and other industries according to the expenditure involved, a policy that some States have adopted with regard to their railways; and such a proposal would be contrary to true economical principles, because " there was never a more mistaken idea than " the idea that rates would be reduced if they were " based upon cost of service."[1] Hindrances will in some such ways be placed in the way of the free bargaining of Local Authorities, hindrances which would be probably less felt in private trade; and, wherever bargaining is not free, the supply cannot be economically adjusted to the demand. In the case of the use of electricity for motive power, to whatever extent sales were thus checked, to a corresponding extent must the price paid for the lighting of the streets and houses be increased in order to cover the total cost of manufacture. In the case of a truly competitive industry, any interference with the power of bargaining might lead to the closure of the works.

(29) Another restrictive effect on Municipal Trade is due to the natural tendency of Local Authorities to confine their enterprises to their own local government areas; an illustration of which is to be found in the municipal building trade. Whenever work is slack near home, the enterprising private builder looks for it in other districts even at considerable distances; but this course cannot

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[1] " Railway Transportation," Hadley, p. 250.

be adopted by the committee in charge of this branch of municipal industry. Any limitation of the field of enterprise must increase the cost of municipal building; for, during slack times, the standing expenses will run on, and must be recovered during the busy periods. If any class of building work ever passes completely into the hands of municipalities, the effect will be somewhat similar to the establishment of a rigid system of protection in each separate local government area, by means of which all outside traders will be prevented from competing within it. Results somewhat similar to those due to protection are, however, still more likely to be felt, because the managers of municipal trades, being political bodies dependent on votes, will often succumb to the temptation to give orders for materials and to give out contracts exclusively within the immediate neighbourhood. Private companies, on the other hand, are more likely to be guided by the quality and price of the goods to be obtained or of the services to be rendered without reference to any other considerations; and they are therefore more likely to reap the benefits of any competition between those who want to serve them. Any such restrictions on the freedom of trade will normally produce the effect of increasing the cost of the manufacture of the article supplied and consequently of the price at which it can be sold. Thus in thoroughly competitive trades, any system tending to confine the manufacture, purchase, or sale of goods to any particular district, or to hamper the management by detailed regulations, will usually produce very harmful results; and such restrictive influences are far more probable in municipal than in private trade.

(30) There are, moreover, certain general objections to municipal trading which apply with increased force when the trade is a competitive one. Less change or variation is necessary in the management of those monopolies which are usually municipalised than in the management of the majority of competitive industries; and "where "the business is largely a matter of routine, the "opportunities for political manipulation are reduced "to a minimum."[1] It follows, therefore, that the danger of corruption will be greatly increased if public bodies enter into competitive trade. The effect of the bad management of a monopoly will probably only be that some inconvenience will be felt by the consumers, and that some revenue will be lost to the public; whereas, in competitive trades, the same causes might produce the loss of much capital. The risk of loss is, in fact, far greater where there is no monopoly, and Municipal Trade is proportionately more objectionable. Municipal Trade is generally open to the objection that the same body which manages the industry is also responsible for the appointment of those whose duty it is to act as inspectors; and this dual relation is likely to be specially embarrassing in competitive trades. For example, when municipal and private lodging-houses are competing side by side, the owners of the private houses would be tempted to complain, even though there were no truth in the accusation, that they were at a disadvantage because the police super-

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[1] "Railway Transportation," Hadley, p. 253.

vision was less strictly enforced with regard to their municipal rivals. It may also be urged that it is not equitable to tax any tradesman, or even to subject him to the risk of an increase of taxation, with the definite object, not of buying him out, but of setting up a rival to himself in the trade by which he earns his living. Opinions will probably differ widely as to the amount of attention which should be paid to this objection to municipalities undertaking competitive trades. But there can be no doubt that private bakers, for example, would feel greatly aggrieved if any public authority capable of imposing taxes on them were to use the credit thus obtainable to set up rival bakeries, and thus to diminish their receipts; and any not unreasonable irritation against a governing body, and any complaints founded on apparently equitable pleas, form in themselves *pro tanto* a valid argument in favour of removing the causes of the irritation and of the complaints. All these are reasons why municipalisation is more objectionable in competitive trades than in trades which tend to become monopolies.

(31) On the other hand, one of the strongest arguments in favour of Municipal Trade is that consumers will be best safeguarded if the supply is managed by a publicly elected body; and, whatever strength this argument may have in the case of monopolies, it obviously tells with much less force in favour of the municipalisation of competitive industries. When the supply of gas is indifferent, for example, the householder can do little more than complain of its bad quality; and such complaints will, so it is urged, be best attended to if the

gas-works are municipalised. But if the sale of oil for lamps, a thoroughly competitive business, were undertaken by public bodies, the dissatisfied consumer could go elsewhere when giving his next order. Where competition exists, the citizen has the power of getting goods from various quarters, and thus possesses a remedy for grievances far more effective than any complaint to a Local Authority. The existence or the non-existence of municipal shops or manufactories supplying competitive goods becomes, therefore, a matter of comparative indifference to the consumer.

(32) It appears, therefore, that the arguments against Municipal Trade are far stronger and that the arguments for it are much weaker in the case of competitive industries than in the case of monopolies; and it has consequently often been suggested that municipal enterprise should be strictly limited to those trades which tend to become monopolies in private hands. But is any such limitation practicable? If Municipalities are to be permitted to manage gas-works, it would be out of the question to refuse to them the permission to deal in any way thought desirable with the by-products of that industry; and, in fact, power to sell residuals is invariably given. Here actual competition comes in at once. It may be unnecessary for a municipality owning gas-works also to municipalise electric lighting works; for there is no reason why public bodies should not meet competition in the same way as private traders have to do. The fact, however, remains that Local Authorities will seldom face competition, and the municipalisation of gas does often lead to the municipalisation of electric lighting.

The municipalisation of electric lighting leads both to municipal tramways and to the municipal supply of electricity for motive power, the extensions of the business in both cases being urged on the very legitimate ground that a sale of electricity during the period of daylight is necessary to make electric lighting at night economical. Thus municipalities now enter into competition with hydraulic power works, and may also in future very possibly compete with private electric power supplies, such as those now being established from large central distributing stations. The municipalisation of tramways has led to a competition with omnibuses, and also in several instances to the running of municipal omnibuses on roads where lines can not be laid, to act as feeders to the tramways. When it was first proposed to municipalise gas-works, who would have imagined that this enterprise would have led by gradual and often necessary steps to our Local Authorities being brought into competition with the salesmen of coke, naphtha, gas stoves, electric lighting fittings, etc., and with the proprietors of omnibuses and of hydraulic and electrical supply companies? Is it not almost certain that other municipal ventures will spread beyond their original limits in the same way?

(33) The supply of water, the oldest municipal supply that exists, has, it is true, practically led to no further extension of business. This is, however, due to the fact that there is no substitute for water; whereas some substitute can be found for every other commodity. But even water supply has been made the basis for a demand for establishing municipal hydraulic power works, though the

arguments in favour of such a step are extremely feeble. In all other cases Municipal Trade has a distinct tendency to enlarge its borders. There are, no doubt, objections to municipal works departments undertaking building operations outside the municipal area; but such an extension of work is logical, and may possibly be permitted in certain cases. In the case of dwelling-houses built by Local Authorities, permission has several times been given to place shops on the ground floor, a perfectly logical consequence of the first step.[1] No one can object to municipal dust destructors. Several Local Authorities have, however, erected works for the manufacture of concrete paving from the refuse from the destructors; and from this beginning they have been led to surfacing the flags with granite-chippings, when the original refuse plays but a comparatively unimportant part in the total business. The flags thus made are, as a rule, used exclusively in all public works, such as street paving, with regard to which the Local Authorities have the power of controlling the specifications; and this without any adequate proof being forthcoming that the ousting of the private flag-maker from this branch of his business results in any real gain to the ratepayer.[2] The municipal management of monopolies leads, therefore, in time to the entry of municipalities by unexpected extensions into competitive trade; and, if Municipal Trade in competitive industries is objectionable, here is another general argument in favour of avoiding all Municipal Trade whatever; an argument which must be allowed to weigh in the balance for what it is worth.

[1] M.T.R., Q. 514.

[2] M.T.R., Q. 4163.

(34) To summarise the foregoing conclusions with regard to trades which do not tend to become monopolies, it appears that English municipalities are, at present, showing a distinct tendency to municipalise competitive trades as well as monopolies, though the advantages which can be claimed for Municipal Trade are less, and the disadvantages to be feared are greater in proportion as the industry municipalised is competitive when in private hands. There is little actual experience to guide us as to the effects of municipal enterprise in competitive industries; but it cannot be doubted that competition would be decreased if public bodies managed such trades. Should this prove to be the case, the results will be somewhat similar to the effects of protection, the price of goods being increased, and the chance of the consumer obtaining the article he considers most suitable being diminished. These harmful results of municipal enterprise will be most felt when public bodies build works or establish industries themselves; they will be somewhat less felt if the action of municipalities is confined to the purchase and management of going concerns; and the effects will be far less harmful if industries, after being bought, are leased out to private companies to be managed by them for a term of years. Municipalities are less likely to compare favourably with private companies in competitive trades than in monopolies, because the disadvantages arising from the tendency to keep public work to one area and the want of initiative in public bodies will be most felt where competition is most possible. Competition, moreover, increases the risks of trade,

and the greater the risks, the greater is the objection to trading on public credit. It would appear, therefore, that there are very strong reasons for confining Municipal Trade to the management of purchased monopolies; but such a limitation of public enterprise is difficult, or even impossible, because of the tendency of all traders to enlarge their spheres of action. In short, the more competition is possible, the stronger must be the case in favour of the public management of any industry before the balance of argument turns in its favour, and the more it becomes desirable to delay municipal ownership even in cases where it ought eventually to be adopted. This is true both for the foregoing reasons, and because a governing body, by excluding and superseding individual energy, "substitutes a less qualified "instrumentality for one better qualified, or, at any "rate, substitutes its own mode of accomplishing "work for all the variety of modes which would be "tried by a number of equally qualified persons aim-"ing at the same end; a competition by many "degrees more propitious to the progress of im-"provement, than any uniformity of system."[1]

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[1] "Principles of Political Economy," J. S. Mill, book v. chap. xi. par. 5.

XI

MUNICIPAL HOUSE-BUILDING

(1) THE ordinary trader concerns himself but little with the effect which the use or consumption of the goods supplied by him will have on the consumer. He takes into consideration all the circumstances likely to increase the demand for his wares, and, consequently, to swell his profits; but beyond this he does not trouble himself. In some cases, as regards the sale of electricity by municipalities, for example, the Local Authorities concerned regard the matter almost exclusively from the same point of view as the private proprietor; for they merely wish to meet such demands as can be met in a profitable manner. With regard to other municipal enterprises, however, many other circumstances have to be taken into consideration. In the housing question, it is not enough to study merely the actual wants or desires of the "consumers," that is, in this case, of the would-be tenants or owners; we must also consider what is for the moral and material well-being of the nation, and whether or not any of the necessary expenditure on the housing of the poorer classes should be met out of the public funds. But, as regards many of these questions, whatever may be the answer given,

the desired result can frequently be obtained quite as well by undertakings managed by private proprietors as by undertakings managed by municipalities. A complete discussion of the housing question will, therefore, not here be attempted, and many very important subjects will be left entirely on one side. We are solely concerned with the choice between municipal and private trade, and all that will here be attempted will be to epitomise the various arguments already discussed, and to show how they are applicable to the housing question. We shall thus briefly illustrate a process which ought to be gone through in the case of every important trade before a decision with regard to its municipalisation is finally adopted.

(2) But even this portion of the subject cannot be very briefly treated, chiefly because municipalities have undertaken the work from very different motives, and in very different degrees. As to their motives, the three main influences at work have been the desire in some quarters to make the municipal ownership of houses a stepping-stone to Socialism; the desire to erect new houses for the accommodation of the inhabitants of any cleared insanitary area, and thus to minimise the suffering inevitably inflicted on them; and the desire to meet any alleged insufficiency in house accommodation by building on hitherto unoccupied areas. The use of the housing question as a socialistic weapon may here be dismissed with the single remark that it is a dangerous weapon where municipalities supply houses at lower rents than those which unassisted private firms have to charge, the inevitable loss being made up by taxation. A false impression is thus created

amongst the uneducated as to the advantages of socialistic systems.

(3) In the management of house property, land agents or rent collectors, workmen, builders, architects, and land surveyors or experts have to be employed; and one or all of these trades may be municipalised. When houses are built by municipalities and are sold directly they are completed, all these industries come under public management except the last mentioned, namely, that of the rent collector. When the municipal builder is allowed to make what would be termed sub-contracts in private trade, the services of the municipal workman can be more or less dispensed with. When the whole operation of building is done by private contractors, no municipal builder need be employed. When there is a competition for the design of the houses to be built, the municipal architect's work becomes that of selection merely. When the operations are confined to areas where rebuilding is obligatory under Acts of Parliament, the services of the municipal land expert, or, we might perhaps say, of the municipal land speculator, are not so much in request. Thus municipalities may undertake housing operations in different ways or degrees; and, if this is borne in mind in the following discussions, it will be seen that the greater the number of trades municipalised, the stronger are the arguments against this form of municipal trading.

(4) Before considering these arguments against municipal trading, the arguments in its favour will first be discussed. Where there is a monopoly, so it is urged, there must the State step in and regulate trade; and the surest way of regulating

trade is actually to manage it. Water supply is an absolute monopoly, and water supply should therefore be municipalised. House property in towns is also an absolute monopoly, and such property should, so the argument runs, also come under public management. If this contention be sound, it obviously points not only to Municipal Trade in the housing of the working classes, but also to the complete nationalisation of all real property. But there is a fundamental distinction between water supply and house-building which is alone sufficient to prevent conclusions arrived at in the one case from being necessarily applicable to the other. The State cannot prevent water supply from becoming a monopoly whether that supply is in private hands or not; whereas the State can, without owning a single acre, do much to prevent the owners of land from exercising the powers they thus acquire in a harmful manner. If the supply of land offered in the market for the building of workmen's houses is inadequate, and if there is land which might be placed on the market if the owners were willing to do so, then the State could step in and force those owners to offer their land in the market at reasonable prices; and it might, in my opinion, often be right for the State to act in this manner. But the point I wish to bring out here is that the objections which could be urged against such a proceeding are no greater than the objections which can be urged against the compulsory sale of land for the purpose of municipal house-building. We are not here concerned with questions connected with the forced sale of land; but we are bound to observe that any objectionable land monopoly can be broken up exactly as well without the aid of Municipal Trade as with it. In this stage of the discussion it would, perhaps, be more legitimate to aver that the State could always ensure private trade having as good an opportunity as Municipal Trade of meeting the demands made on it. The remaining question is which can best meet that demand.

(5) No doubt, it has frequently been urged that facts prove incontestably that in many cases private enterprise is incapable of supplying the needs of the people in these respects. In certain cleared insanitary areas in Liverpool, for example, when the municipality was legally bound to see that a certain amount of house accommodation was provided for those dispossessed, and where the sites were inconvenient for tenements, the city felt obliged "to take "in hand those sites, because a private speculator or "builder would not undertake to build dwellings of" a suitable class.[1] Obviously the reason why speculators refused to come forward was that they anticipated that the enterprise would be unremunerative, a subject on which, generally speaking, they are better able to form a judgment than any elected body. After carefully estimating their probable loss on any such rehousing operation, has the municipality of Liverpool ever offered to give an equal amount as a bonus to any private firm who would undertake the work and take the risk connected with it? Until some such experiment has been tried and has failed, it is useless to urge the necessity of Municipal Trade on the ground that private traders will not come forward; for on financial grounds, at all events, the objections to the payment of a bonus to private

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[1] M.T.R., Qs. 2264, 2271, and 3674.

firms out of the rates is no greater than the objection to covering losses made in municipal trades by payments out of the public revenues.

(6) Again, it has been urged in favour of municipal house-building that a better class of dwelling will thus be supplied and that the material and moral condition of the people will consequently be raised. If this fact could be established, the logical conclusion would be that every house, or, at all events, every workman's house, throughout the land should in future be built by the State. To those who reject such a socialistic conclusion, but who, nevertheless, urge that certain classes requiring special treatment might be assisted in this way, it should be pointed out that the choice lies between municipal building and *private building under State regulations.* No one doubts the necessity of enforcing some regulations with regard to house-building, public or private; for the case for sanitary control is overwhelming. But the advocates of Municipal Trade must show that there are certain desirable regulations which, if imposed on private builders, could not be enforced, whilst the required results can be obtained when the houses are built by municipalities; and this has not been demonstrated. It is true that restrictive regulations may make private house-building unprofitable; but this, as we have just seen, would not tell in favour of Municipal Trade, which for the same results would be equally unprofitable. It should, moreover, be noted in connection with this subject that all regulations, the enforcement of which is in the hands of municipalities, are somewhat more likely to be strictly enforced in the case of private trade than in the case of Municipal Trade. Police

controlled by Local Authorities, for example, would be somewhat more tempted to overlook the failings of municipal employees in charge of municipal lodging-houses than the similar shortcomings of private lodging-house keepers. To deny that there is any force in this contention is to deny that Municipal Authorities are guided by ordinary human motives, and consequently liable to fail like mortals. The plea for municipal house-building cannot, in fact, be sustained on the ground that healthier houses can thus be erected.

(7) The last argument in favour of municipal house-building that will here be noticed is that founded on the alleged good example which would thus be set to private builders and owners. It may with truth be urged that what may be called experimental house-building is costly, and that private owners will not always be ready to undertake such work; though up to the present time far more has been done by private philanthropic effort than by municipal enterprise in this direction. To spend public money in order to ascertain what are the best types of houses to suit the poorest classes may be perfectly legitimate. But it is to be noted that such experiments necessitate the employment of no municipal employee besides the municipal architect; because, after the plans have been drawn, the actual building may be let out to private contract. Moreover, the erection of comparatively few houses of any particular description will be sufficient to ascertain whether the type answers the required purposes or not. Thus the employment of the municipal architect to a moderate extent in experimental house-building may be advantageous; but beyond

this municipalities can do nothing in the way of setting a good example. With the object of raising the status of a certain class of the community, a Local Authority may erect dwellings of a kind superior to that to which they have been accustomed, with the hope that that class will occupy them. No good can, as a rule, come of such efforts. Houses built by municipalities probably, as we shall see, will not be occupied in the way desired, and no change will be produced in the type of house built by private builders for the class whose condition the municipality intended to improve. Philanthropic owners and companies have been the first to introduce many reforms in house-building for the poorer classes; whilst commercial private house-building is guided by economic principles, and not by examples, bad or good.

(8) Turning to the arguments against Municipal Trade, the first to be noticed is one which has been freely used on political platforms. Under Part I. of the Housing of the Working Classes Act, Local Authorities, when clearing away houses in insanitary areas, are obliged to provide accommodation for a large number of persons in the vicinity. The object of this provision is that dwellings should be provided for those displaced, thus as far as possible lessening the suffering due to this compulsory displacement. But from all sides, from London, Edinburgh, Liverpool, and Birmingham, we hear that but few of the dwellers in the demolished houses ever find their way into the new dwellings erected for their accommodation.[1] It is, therefore, urged that these municipalities, when they have built houses

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[1] See *Times*, 21st October 1902.

under the conditions imposed on them by this Act, have almost entirely failed to attain the object apparently intended; and that municipal trading must therefore be condemned on this account.

(9) There are, however, several serious flaws in the foregoing argument. In the circumstances named, municipalities are bound to see that houses are erected whether they wish to do so or not; and, to make good the case against Municipal Trade, it would be necessary to prove that better accommodation would have been provided for the individuals displaced if municipalities had entrusted the work to private firms instead of undertaking it themselves. I doubt if this has been actually demonstrated, though it may be true. It is, however, even more important to note that the above argument assumes that a municipality *ought* to rehouse the same individuals that it dehouses. But is this the case? The inhabitants of slum areas, with whom we are now solely concerned, are of the poorest classes, and are accustomed to living in the poorest and worst of dwelling-places. When they are displaced they will not pay a rent higher than that which they have been paying. They are, in fact, certain to drift away into the worst accommodation that is to be found in the neighbourhood. To find them all swarming into a new group of houses would therefore lead one to believe that these were the worst dwellings, old or new, to be found in that neighbourhood, a belief which would hardly be a subject for rejoicing. Moreover, in many of these slum areas we have persons of the lowest type crowding together; and, when this is the case, it is positively advantageous that these communities

should be broken up, and that the individuals composing them should be forced to scatter themselves amongst the more reputable inhabitants of the better built areas. In fact, in rehousing operations consequent on the destruction of slums, the dehoused are never largely rehoused in the new buildings, whatever be the agency employed in their erection; the consequent scattering of the old communities is in certain respects beneficial; and even if it were not so, the facts disclosed would tell us little as to the relative merits of municipal and private trade.[1]

(10) But the difficulties connected with these rehousing operations have, nevertheless, a very important bearing on municipal trading. One of the main difficulties is that a loss must frequently be incurred; a loss which must be made good out of the rates. In cases in which clearing operations can be done at a profit, the work will often be undertaken by private speculators, without the aid of any Act of Parliament; and it is only where a loss is inevitable that municipalities certainly must step in. This loss may be due to various causes. Very often the number of persons rehoused is less than the number dehoused from the same area, and rents cannot be raised in proportion to the diminution in numbers. Slums again are often built on leasehold property, and, when the leases fall in, the private owners, if left alone, would erect on the cleared areas manufactories or other buildings which would yield far higher rents than the destroyed tenements. This prospective increase of value influences the price which has to be paid for the land when bought under the provisions of the

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[1] M.T.R., Q. 3652.

Housing Acts; and, as it is generally impossible to get an increased rental if workmen's houses are built on the ground, the operation must involve a loss. The entanglements of interests due to the fact that there are many owners and many leases and sub-leases terminable at different dates may, perhaps, make clearing operations, even if they would be profitable, almost impossible except under the Housing Acts; and the full enhanced value might never be realised as long as the properties remained in private hands. But it would be difficult to reduce the price to be given when property is compulsorily purchased on this account if the valuation is to be made in a judicial and equitable manner. In fact, compulsory rehousing operations must generally involve some expenditure of public money.[1]

(11) The foregoing conclusion may be stated in a somewhat different manner. If what has been said is correct, much the same results as those obtained by municipal housing operations on cleared areas would have been obtained if the matter had been left to private trade, and if Parliament had forced municipalities to offer bonuses to workmen to induce them to live in certain definite localities from which they or other workmen had been displaced. No greater burden would have been thrown on the rates; private enterprise would have been remunerative; and it would have been voluntarily undertaken. In Liverpool it appears that the rents obtained for municipal dwellings are as much as 6s. a week a room, or 33 per cent. less than the full commercial rent obtainable;[2] and

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[1] M.T.R., Qs. 2293, 2298, 3652.

[2] *Ibid.*, Qs. 2277, 2293.

this may be regarded, therefore, as the bonus to the tenant. One of the most serious evil effects of this bonus system is that it keeps down wages. Workmen are thus induced to refrain from moving away into other neighbourhoods; the supply of labour in the crowded vicinities is kept up; and a rise in wages, which would otherwise probably take place, is thus prevented. Now there are many who think that the most hopeful step towards solving the housing problem in London and in other large cities would be to induce the owners of manufactories to move their establishments from the centre outwards. Those who talk lightly of such an undertaking have evidently not realised the enormous difficulties which would have to be overcome in the case of large manufactories. These difficulties are, however, far less formidable in the case of trades not involving the use of much fixed plant, and something may be done in this direction. But it is obvious that any proceeding tending to keep down wages in any district would produce an opposite tendency to that desired; for it would tend to make manufacturers less willing to move. In fact the letting of houses in central crowded areas at unremunerative rents acts as the award of a bonus both to the manufacturer and to the workman to induce them to remain there permanently.[1]

(12) Thus Parliament directs municipalities to clear away houses in insanitary areas, and to give bonuses both to workmen to re-settle in these areas and to manufacturers to maintain their manufactories in their vicinity. This is done in spite of

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[1] See *Quarterly Review*, April 1901, "The Housing Question."

the fact that these are usually the very districts where circumstances most tend to make human beings herd together. Does this seem a hopeful method of contending against the evils arising from the overcrowding in the centre of our great cities? In answering this question it must be remembered that the object which Parliament apparently had in view in ordering these rebuilding operations was to mitigate the sufferings of those displaced; an object which is seldom satisfactorily attained. Does not this point to the advisability of relaxing the obligation to rebuild workmen's houses on the cleared areas? Local Authorities should know better than Parliament what amount of suffering is likely to result from any proposed clearing scheme, and they should be allowed to judge as to the necessity of rehousing those displaced.

(13) Building workmen's houses at a loss is a very doubtful expedient at any time, and, if more discretion were allowed to Local Authorities, it would be less often insisted on. And it is this compulsory unremunerative building which has in large measure caused municipalities to take up this trade. The idea of giving a bonus to private builders is either unfamiliar, or it is thought to be objectionable by those who have not thoroughly considered the matter; and the fact that private companies are unwilling to undertake these compulsory rehousing operations without such a bonus serves as an excellent popular argument for those who advocate Municipal Trade. Few of those who are told that private trade is a failure ever realised that private proprietors could be induced to do all that is needed at no greater financial disadvantage

to the community than that resulting from Municipal Trade. Thus, if Local Authorities were given greater freedom in the matter of rehousing operations, there would probably be less municipal house-building.

(14) In the foregoing discussion it has been tacitly assumed that the cost of housing operations would be the same whether the work was done by private firms or by Local Authorities. This is not, however, likely to be the case. In the first place, Local Authorities are much less likely than private owners to be guided by the possibility of earning the necessary rents when deciding on the class of house to be built or the accommodation to be provided. For example, in cities given to municipal enterprise, the question has arisen whether a hot and cold water service should be supplied all over workmen's tenements. "The answer in earlier days "was: Certainly, if the tenant is willing and able to "pay for it. Under a municipal monopoly this will "be settled by public debate and impassioned appeal "to the eternal fitness of things."[1] If such influences are at work, obviously they must tend to make municipal dwellings dearer than those built by private firms in the sense of being less remunerative.

(15) But, even when exactly the same results are aimed at by private and public traders, enterprises undertaken by the latter are likely to be more costly. Reasons have been given in a previous chapter for believing that, on the average, works managed by private proprietors will be less expensive than those managed by municipalities, and these reasons are all applicable to the case of municipal house build-

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[1] *Quarterly Review*, April 1901, p. 447.

ing. It is not, therefore, necessary to repeat them. It may, however, be worth pointing out that the more the elected authorities take the work into their own hands the greater will be the probable excess of expenditure over the private trade standard. If directors are, as a rule, better men of business than councillors, they will exhibit their superiority in their choice of building sites, and in their negotiations in connection with the purchase of land. Thus, even in cases where municipalities do no more than buy estates and let them out or sell them to private builders, the gross profits are not likely, on the average, to be quite so great as those obtained by private companies undertaking exactly the same work and managing the whole business from start to finish themselves. If municipalities keep more of the management in their own hands, then more serious influences will come into play. Municipal salaries are, on the average, lower than those which private firms *find it pay* to give; and, even where no other municipal employees besides municipal architects and municipal clerks of the works are employed, some harmful results may arise from the employment of slightly less skilful officials. Again, when houses are designed by municipal architects and then put out to contract, tenderers from the local government area electing the body in whose hands the decision rests are likely to receive very favourable consideration, a form of "protection" which is certain to raise average prices and to cause the work to be more costly. Where the work is actually executed by municipalities, the excess of expenditure over the private standard is, for several reasons, likely to be still greater. In the first place, there must be periods during which a works department has little or nothing to do, and the fact that municipalities are unable at such times to tender like private firms for any ordinary building operations in the neighbourhood or elsewhere must make all the enterprises undertaken by them more costly; for, in addition to a normal share of the current expenses, a share of these expenses incurred during these idle or partially idle times should also be charged against each separate municipal undertaking. Then, again, where no work whatever is put out to contract, and where all the workmen are consequently municipal employees, the cost will be considerably increased because, on the average, the wages paid will be higher, the hours of work shorter, and the discipline less strict. Lastly, in these circumstances, the Local Authorities concerned will occupy the dual positions of inspector and inspected; and this must not only, as has already been pointed out, tend to make the work inferior, but must also add to the cost; for there will be a tendency for municipal borough engineers, sanitary inspectors, and clerks of the works not to point out the shortcomings of municipal architects, foremen of works, plumbers, and other employees as keenly as if these same men were in private employment. In some cases, in all probability, municipal housing operations are conducted more economically and better than the work executed by many private companies; but the foregoing are all reasons for believing that, judged by average results, private house-building is less costly.

(16) In trying to ascertain whether municipalities

have made a profit or a loss on any of their trading enterprises, and whether that profit or loss would have been greater or less had the work been as far as possible left in private hands, it would, without doubt, be far more satisfactory if we could put aside all abstract reasoning like that discussed in the last paragraph and merely look to actual facts and figures. Little thoroughly reliable information is, however, available. According to the Local Government Board Return for the four years ending March 1902, the total capital provided by municipalities for working-class dwellings was £1,253,592, whilst the average gross profit was £16,518. Judging by these figures, municipalities undertaking similar work ought to expect to lose about 3 per cent. on the money thus invested until the debts thus incurred were paid off, a conclusion which, as far as it can be relied on, confirms the belief that losses on such operations are inevitable as the law now stands. But in truth British experience has been too short, and the operations not large enough to afford any conclusive evidence; and many reasons have already been given for doubting the accuracy of the figures contained in these returns even when they refer to long established trades. One of the results of these housing operations having only recently been initiated is that a considerable proportion of the expenditure incurred is probably represented by unfinished houses, thus making the loss appear unduly great. But, with regard to other elements of doubt connected with these returns, nearly all of them make it probable that the prospective loss indicated by them is too small. For example, when new houses are let, the profits are often shown as being greater than they should be; because the "cost of repairs becomes very "great as buildings get older," and the amount set aside for future contingencies is apt to be too small.[1] As a fact, nothing whatever appears in this return under the heading of depreciation of houses, an omission which may be due to its being otherwise entered in the municipal accounts. It is not necessary to recapitulate the other reasons mentioned in chap. viii. for believing that these statistical records give a too hopeful impression. One special source of error is, however, of sufficient magnitude to be worth separate notice. "Mr "Wallace Bruce, Chairman of the Finance Com-"mittee of the London County Council, recently "stated, in introducing his budget, that two proper-"ties for clearance recently purchased for £240,000 "were valued for rental as workmen's dwellings at "£50,000, the difference being thrown upon the "rates."[2] Again, from the *Times* report of the meeting of the London County Council of 20th November 1901, we learn that "the Improvements Committee "further reported that the Council had acquired a site "in London Fields, Hackney, for rehousing about "486 persons who would be displaced by the Mare "Street improvement. The value of the land was "£1250, but the Housing Committee could not afford "to pay anything for it, and, for reasons similar to "those in the Southwark case, the Improvments "Committee recommended the Council to fix the "value of the land for rehousing purposes at *nil*." When important items of expenditure are in this way deliberately entered in the wrong place, municipal accounts are worse than useless; they are positively misleading.[1]

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[1] M.T.R., Qs. 2293, 3708, Sir T. Hughes.

[2] *Jour. of the Royal Stats. Soc.*, June 1901, p. 207, Mr John F. J. Sykes' paper.

(17) It appears, therefore, that we cannot get reliable statistical evidence as to the losses incurred by municipalities in their building operations. But, even had we been able to get the required information, it would not have solved the problem; for, in order to compare the merits of public and private trade, we should, in addition, require to know what would have been the financial results of the same undertakings if they had been executed partly or wholly by private enterprise. This latter half of the enquiry is perhaps the more difficult of the two; for it necessitates estimating what would have been the cost of erecting tenements exactly similar to those built by Local Authorities if the work had been entrusted to private enterprise. The actual cost of erecting buildings of probably somewhat different types by private trade in different places would have to be taken as the basis for any such estimate. The difficulty of comparing the cost of supplying gas or electricity or of the working of tramways in different localities has already been noticed; and, although the problem may be somewhat easier in the case of house-building, yet there are many elements to be considered which are difficult to allow for. Wages and the price of materials vary much in different places and at different times. The value of land and the expenses connected with its purchase, and with clearing operations generally, make all comparisons somewhat uncertain; nor is it easy to make accurate

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[1] M.T.R., Q. 3652.

allowance for the differences in the size or the construction of different buildings. In London, where some of the public works are undertaken by the Municipal Works Department and some by private firms, the comparison between the two would at first sight appear to present less difficulties. The cost of any proposed dwellings is estimated by the Municipal Authorities, and the Works Department has generally been given the option of undertaking the work at that price. If they "cannot "build it for the money," then it is put out to contract. Thus, in this instance, as in the case of electrical undertakings, the contractors only get the "leavings," and this makes it almost impossible to compare the financial results of private trade with the results obtained by its more fortunate rival.[1] Nor does any comparison between the rents actually charged by municipalities and private companies really enlighten us any more. The following table is, no doubt "instructive as show-"ing the comparative weekly rentals and the com-"parative areas of rooms in trust dwellings and "municipal dwellings respectively:"[2]—

	AREA IN SQUARE FEET.		WEEKLY RENTS.		
	Living Rooms.	Bedrooms.	One Room.	Two Rooms.	Three Rooms.
Peabody Trust:—			*s.* *d.*	*s.* *d.*	*s.* *d.*
Herne Hill . .	153 to 180	117 to 132	3 6	6 0	7 6
Stamford St. (new) .	122 to 177	114 to 125	3 0	5 0	6 6
Guinness Trust (latest) .	140 to 150	100 to 126	2 10½	4 9	5 9
L.C.C. (latest) . .	154	97½	5 0	6 6 to 7s.	8 0 to 9s.

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[1] M.T.R., Q. 3725.

[2] *Times*, 2nd April 1902.

Clearly, if these figures can be taken as a guide, municipalities charge the higher rents. But the London County Council's houses were probably constructed at a later date when the cost of building had increased greatly; and the many varying circumstances make it almost impossible to judge in which case the rent represents the largest return on the capital invested. We cannot, in fact, form any satisfactory estimate of what would have been the financial effects to the tenants or on the municipal revenues had the whole of the work connected with necessary re-housing operations been entrusted to private firms.

(18) If accurate statistical information is not available, it is obvious that we must rely in forming our conclusions on a common-sense consideration of all the circumstances of the case. If the house-building problem is examined in this way, it appears highly probable that municipal work will, on the average, be more expensive than private work, and more expensive in proportion to the extent to which the various operations are undertaken by municipal employees. If this be the case, what is gained by placing this work in municipal hands? Where the work is necessarily unremunerative, the award of a bonus to private traders to induce them to undertake the work would be a cheaper way of getting it done than entrusting it to a Works Department. On the other hand, where the work can be undertaken at a net profit by municipalities, an even greater profit could be secured to the public by placing the work in private hands, suitable rentals being charged. The prospect of profit or loss is perhaps not the

most important side of the question to hold in view; but whatever weight should be attached to the financial results, that weight tells in the balance against municipal house-building.

(19) As to the other arguments for and against this branch of Municipal Trade, the advantages are certainly far out-weighed by the corresponding disadvantages, the most important of which have yet to be mentioned. These are the increased probability of municipal corruption, the lessened probability of houses of the required type being built, and the harmful indirect effects on private trade which are thus produced. And in considering these objections it is to be noted that we are not now discussing the adoption of some completely socialistic system. It is not necessary here, therefore, to enlarge on the feelings of the workman either when dissatisfied with his dwelling, or when evicted, possibly because of the non-fulfilment of some pedantic municipal regulation, should he find the municipality the sole landlord to whom he could apply. The possibility of civic tyranny in these circumstances is obvious. Neither is it necessary to discuss at length either the enormous municipal debt which would result from a municipal house-building monopoly, or the deadening effect of such universal State management. As to this latter point, governing bodies, being few in number and generally tending to become stagnant, are certain not to meet the very varied requirements of the different classes as satisfactorily as they can be met when the many competitive agencies of private trade are free to endeavour to meet the many demands made on them. Muni-

cipalities have frequently given satisfaction in the supply of gas and water; but the gas and water supplied in each locality are only of one kind; whereas, not only are there a great number of different types of houses required, but the types are constantly varying. "When an improvement "is suggested to the authority which has secured a "monopoly of building, it will say that the scale of "accommodation has been carefully considered, and "that the Council sees no necessity for an alteration of the estimates and sanitary rules laid down "by its thoroughly competent staff of surveyors and "officers of health."[1] These considerations indicate that very harmful results would follow even if only one class, the working class, were to a large extent housed by elected bodies; whilst, for all these reasons, the effect of the universal municipal ownership of dwelling-houses would be appalling.

(20) Here we are chiefly dealing with such partial house-building operations as are being actually undertaken by a few great cities, London amongst others. These operations are, as we have seen, of two kinds: those undertaken under statutory requirements on areas from which insanitary houses have been cleared; and those voluntarily undertaken for the sake of providing additional house accommodation. As to the latter class, we have seen that public bodies are as a rule very cautious in financial matters, and such operations will, therefore, only be undertaken where there is little risk of the houses lying empty for long. A few spasmodic efforts may be made by municipalities in the direction of a bold house-building policy in suburban

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[1] *Quarterly Review*, April 1901, p. 446.

areas, a policy which is the one probably most conducive to relieving the over-crowding of the central districts; but, as a rule, private enterprise will be far more progressive where there is any risk. But private enterprise, even though on the whole more progressive, will in all circumstances be seriously checked by any competition or threatening of competition by Local Authorities. Such competition is not conducted on even terms, the municipalities having such vast resources at their call. There is no certainty that elected bodies will charge commercial rents, and, if they do not do so, their houses will draw away tenants from their private rivals, even where the rents charged are as low as possible. In this way the difficulty of the already difficult problem of making the building of workmen's houses a remunerative operation is increased, and capital does not flow as readily as it otherwise would do in this direction. The consequences are obvious, and "every one," writes Miss Octavia Hill in a letter to the *Times*, "who knows about the matter is aware that the "good building companies and the good builders are "not proceeding to meet the need of dwellings as "they were doing before municipal action was talked "of; their work has been arrested."[1] It has been estimated that "London Municipal Authorities within "the last fifty years have constructed dwellings "containing 6132 rooms, and that, within the same "period, trusts, associations, and companies in London "have constructed dwellings containing 50,402 "rooms."[2] Private enterprise has done vastly more ork even in London than municipal enterprise; private enterprise has been checked; and, in Lord Avebury's opinion, "there can indeed be "little doubt that there are fewer workmen's dwell-"ings now than there would have been if the "municipalities had not built any."[1]

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[1] *Jour. of the Royal Stats. Soc.*, December 1901, p. 570.

[2] *Ibid.*, June 1901, p. 201.

(21) Lastly, we have to consider the general effect of municipal house-building on municipal life. There can be little doubt that such operations induce Local Authorities to study the wants of the working classes, and that some beneficial results will thus be produced. But arguments were set forth at length in chap. v. to prove that any great addition to the amount of work thrown on municipal bodies tends, on the whole, both to lower their average business capacity, and to lessen the amount of attention paid to their primary duties; and these arguments all apply to municipal housing operations if extensively undertaken. The same may also be said of the reasons already adduced in support of the belief that municipal corruption is less easily eradicated in proportion to the number of voters in the pay of the municipality. But there is in addition a special and very serious objection to municipal *house-owning* on the grounds of the corrupt influences thus likely to be brought into play. Lord Rosebery is reported to have spoken of the "wise discrimination in refusing tenants who "offered much more than the rents" which a certain Local Authority was prepared to accept.[2] Where there are an "enormous number of people who are "always watching the rebuilding" operations on

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[1] *Jour. of the Royal Stats. Soc.*, December 1901, p. 570.

[2] M.T.R., Q. 1568.

cleared areas with the view of getting accommodation for themselves, is it likely that this "wise "discrimination" will always be used by the "special "sub-committee" of a body sharply divided on political lines without any reference whatever to the political leanings of the applicants?[1] Political corruption of the worst kind is almost certain to arise before long in these circumstances. There may be comparatively few municipal tenants at present in any one city; but these few are often concentrated in certain wards, and their votes would certainly be worth the trouble of a little political "discrimination." It is hardly possible to overrate the danger to our hitherto nearly unspotted civic purity which must arise from municipal housing operations on a large scale, especially if the houses are owned and not sold.

(22) The arguments for and against Municipal Trade as they are applicable to municipal housing operations have here been summarised as an example of the way in which the municipalisation of each trade should be considered before a decision is reached. The conclusion arrived at in this case is that a certain amount of experimental house-building, necessitating the employment of no municipal employee other than the municipal architect, may, in certain circumstances, be very useful. As to ordinary municipal housing operations, they will probably stimulate the public bodies concerned in a beneficial manner to consider more in detail the needs of the working classes; but, on the other hand, these needs can be as well or better met, and at less cost by private trade; extensive build-

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[1] M.T.R., Q. 2273.

ing operations undertaken by Local Authorities will certainly lessen the work done by private building companies in a most injurious manner; and the ownership of houses by public bodies will add greatly to the chances of corruption. Balancing these arguments, it appears that, as regards housing operations, a particularly strong case can be made against this work being largely entrusted to municipal employees.

XII

LEGISLATION WITH REFERENCE TO MUNICIPAL TRADE

(1) It has been seen that both municipal and private trades are productive of harmful results, and, before a final judgment can be made as to the general policy which it would be wise to adopt in future, it is necessary to discuss how far it is possible to safeguard against these evils. Not merely should we compare Municipal Trade with private trade as they are seen to-day; but we should consider what legislation is advisable in the case of both kinds of industry, and we should compare a reformed municipal trade with a reformed private trade. Space makes it impossible to discuss fully all the questions which thus arise, and what is here said must be merely taken as suggestions of possible lines of advance rather than as definite proposals for reform.

(2) Taking Municipal Trade first, it is necessary, before dealing with possible legislation to make certain general enquiries as to what profits, if any, should be made by public bodies out of trading enterprises. "Where there is no monopoly there "is clearly no reason why the profit should be re-"stricted by anything except competition, or the "fear of competition."[1] But with monopolies this

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[1] *Economic Journal*, March 1889, Edwin Cannan, p. 8.

is not the case, and, as profits obviously depend on prices, the first question to be discussed is the scale of prices which municipalities ought to charge for goods supplied by them in such industries. According to the normal method of conducting Municipal Trade, the Local Authority concerned buys or builds gas-works, for example, out of moneys raised by loan, and, at the same time, makes arrangements for paying off the debt thus incurred within a given period. The debt may either be paid off gradually by instalments, or a sinking fund may be allowed to accumulate until it is large enough to pay off the whole debt at one blow, as it were. Let it be assumed for the sake of simplicity, and not because it is necessarily the best system, that the sinking fund plan is adopted, and let our enquiry be as to the scale of prices which should be charged, in the first place, during the debt redemption period, and, in the second place, after the whole debt has been paid off. In the case of a loan being paid off by instalments, the arguments here used would still generally hold good; though the change from one state of things to the other would, no doubt, be gradual and not sudden.

(3) In these days little need be said in order to show the necessity for the establishment of such sinking funds. In every municipal trade there must be some risk of a loss being incurred, a loss which may have to be made good out of additional taxation; and this risk in some cases is very considerable. If loans for municipal trading purposes were raised like commercial debentures, the profits and assets of the trade in question being the sole security,

no risk would be thrown on ratepayers as such. But public loans cannot be raised in this way; for subscribers would never come forward with their money unless they were granted powers somewhat similar to those which enable shareholders to nominate their directors; unless, that is, it were possible for the bondholders to nominate the Town Council. Such an arrangement being out of the question, loans must be raised in such a way as to throw a risk on the ratepayers; a risk, the responsibility for which rests primarily with those ratepayers who had the right to vote when the Council which contracted the loan was elected. It is true that every such ratepayer, provided that he possesses no real property in the district, may at once escape all further responsibility, either voluntarily by leaving the district, or involuntarily by death; a point which indicates an objection to all such loans. But the majority will remain as ratepayers in the district for some time, and it is obviously their duty to see that the burden of the risk thrown on irresponsible newcomers is not unduly heavy and that none is thrown on posterity. In short, steps should always be taken to insure the gradual redemption of loans raised on the security of all real property in the district.

(4) But should the price paid for goods made by municipalities cover these charges for sinking funds as well as the cost of manufacture? In England the price paid by householders for water, or the water-rate, is levied on somewhat the same basis as ordinary rates; and it would make but little difference if the whole cost of this service, sinking fund and all, were included in the ordinary

municipal expenditure. In the case of baths and wash-houses, the price paid by the users is frequently insufficient to cover all the costs, and the difference has to be made good out of the municipal treasury. Even if the whole cost of the sinking fund were thus thrown on the ordinary ratepayer, such an imposition might perhaps be justifiable on the ground that the whole body of the ratepayers are beneficially affected by the increased health and cleanliness of a fraction of their number resulting from cheap bathing facilities. But, putting aside these exceptional cases, is there any reason why any ratepayer should be forced to pay anything to a municipality on account of goods he has never received? Ratepayers do not all use gas, for example; and those who do not use it may be rich or poor. It is illegitimate from the point of view of taxation to fine the rich man because he is rich. "It is equally illegitimate to "charge a poor ratepayer for a benefit which he "demonstrably does not receive."[1] And both these illegitimate acts must be committed if ratepayers, as such, are forced to contribute in any way towards the creation or maintenance of any municipal trade which is not justifiable on the grounds of the benefits received from it by the general public. Thus the price charged should cover all costs, including sinking fund charges; and from this conclusion we arrive at a lower limit to the prices which should be charged by municipalities in the case of municipal trades which tend to become monopolies.

(5) Thus we see that there are solid reasons

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[1] *Economic Journal*, June 1901, Prof. W. Smart, p. 179.

against allowing ordinary municipal trades to become a burden on the ratepayer. But is there any objection to allowing municipalities to make net profits out of such enterprises, net profits which would go to swell the public revenues? If prices are raised above a certain level, the result is similar to the imposition of a tax on the goods supplied; and whether this is objectionable or not depends primarily on whether the goods in question form a suitable or unsuitable subject for taxation. If water were sold by quantity, it would be one of the worst possible subjects for taxation, because any imposition would tend to reduce the quantity used; but, as it can hardly be said to be *sold* at all to ordinary householders, no very important question as to its taxation arises. As to the other goods usually sold by municipalities, such as gas, electricity, and tramway locomotion, they are none of them very suitable subjects for taxation. But the revenue must be raised somehow; and, as there may be no other less objectionable methods of taxation available, perhaps no great objection from this primary point of view can be raised against a very moderate income being drawn by municipalities from these sources.

(6) But other considerations besides these primary ones have to be held in view when we are dealing with municipal trades subject to direct or indirect competition; that is, in the case of all industries except that of domestic water supply. It is true that if a municipality could impose the same tax on the goods made by its competitors as it can on the goods made by itself, no other question besides the suitability of these

goods for taxation would have to be considered. But English municipalities cannot act in this manner, and any tax imposed on their own products will have the effect of restricting their sales, whilst no such restriction is placed on the sales of their competitors. If the price of the gas made by a municipality, is raised so as in effect to impose a tax upon it, the amount manufactured will inevitably be diminished; because the sale of untaxed oil, its indirect competitor, will inevitably be increased. No doubt any increase of revenue thus made by the Local Authorities concerned would go to the reduction of taxation; but the extra expense thrown on the community in consequence of the use of an increased quantity of untaxed and normally more costly commodities would in all normal cases more than outweigh the benefits thus received; and the net result would be an economic loss to the community. But it should hardly be necessary to point out the unwisdom of municipalities taxing their own products in such a way as to "protect" their rivals; a proceeding equally opposed to the tenets of protectionists and free traders.

(7) Thus, on the one hand, prices should not be so high as to amount to more than a very moderate indirect tax on the goods supplied by Local Authorities; whilst, on the other hand, prices should not be so low as to throw any burden whatever on the unbenefited ratepayer. But besides this latter reason for regarding prices below a certain level as being objectionable, such low prices may in effect amount to the payment of a bounty to the consumer out of funds raised by

general taxation. If the price of the goods supplied by Local Authorities is below the price at which they could have been obtained from private proprietors, and if the result is a loss which has to be made good out of taxation, the consumer gets what he could not get without the intervention of the municipality, and the ratepayer pays an additional sum in rates which he would not otherwise pay. This is in fact a bounty to the consumer, and bounties can easily be shown to be objectionable. For example, if a municipality had owned gas-works before the introduction of electric tramways, and if these works had been largely subsidised out of any public funds, very low prices might have been charged for gas, with the result that the erection of electrical works, and, consequently, the introduction of electrical tramways, might have been delayed or stopped. The disadvantages of the absence of electric tramways and of the increased taxation resulting from the low municipal gas rates would in all probability have more than outweighed the advantages of cheap gas. In some rare instances it would probably be economical to kill one trade in order to make another more prosperous; and, when this is the case, the award of a bounty would act beneficially. But these exceptions to the normal rule are so rare, and the danger of opening such a door so great, that it is practically far wiser to neglect them altogether. It may, therefore, safely be declared that bounties are uneconomical, and, as a consequence, that prices should not be so low in municipal trades as to throw a burden on the ratepayer, not only because the ratepayers would not all be benefited in this way, but also because the result would be in effect the award of a bounty to consumers.

(8) Thus both indirect taxation and bounties are objectionable because they have, as a rule, the effect of allowing the more costly product to have an undue advantage in the market. This is the result we wish to avoid; and if a municipality producing the same goods as a private trader, and producing them at the same cost, is not to have an undue advantage or be put to an undue disadvantage, the goods made in the two cases must be sold at the same price. If a municipality sells at a slightly lower price, it may unduly displace privately made goods, even though they are slightly superior in quality. If, on the other hand, a municipality sells at slightly higher prices than the competing private traders, the latter may find themselves slightly "protected," even though their goods are inferior. Thus we arrive at the rule that, if the cost of the production of goods in public and in private trade is the same, the prices should be the same. The foregoing arguments with reference to directly competitive trades are also applicable with but slight modification to indirectly competitive trades; and it appears, therefore, that in all municipal trades (again excepting domestic water supply) the price of goods should bear the same proportion to the cost of production as is the case in private trade.

(9) Unfortunately this rule, though simple in form, is not easy to apply; and amongst other difficulties which have to be discussed are those connected with rents. Private tramway companies,

for example, often pay large sums annually to Local Authorities for the privilege of running cars on certain routes; and, when these tramways are municipalised, the question arises whether the rent which the Local Authority may then be said to pay to itself should any longer be included as a part of the *cost* of the tramway service. To answer this question we should, in the first place, enquire whether sums paid to the State by public companies owning monopolies should generally be regarded as indirect taxation imposed on the goods made by them or as rents paid for the privileges accorded by the State. Let it be assumed for the purposes of this enquiry that there are a number of candle manufacturers in indirect competition with a number of oil vendors. Now if the State were to approach the existing candle manufacturers and offer to give them a complete monopoly of the trade in candles on condition that they would pay annually a certain sum for this privilege, in all probability the offer would be jumped at. But would this payment be a rent or a tax? If it was the intention of the candle manufacturers to amalgamate and to continue to sell their goods at the same price as heretofore, they certainly might hope to increase their gross profits by making those economies which are nearly always possible when amalgamations take place; and, foreseeing these increased gross profits, they would be willing to pay a certain rent not hitherto paid. There is always waste in competition, and if the sum paid to the State merely represented the saving due to the abolition of this waste, it could hardly be called a tax. The State would gain; no undue advantage would be given to inferior goods;

and no objection could be raised against this payment on such grounds. But the candle manufacturers would in all probability raise their prices somewhat, a policy which might result in increased gross profits, even though there was a diminution in the sale of candles and an increase in the sale of oil. Thus, if permitted to raise prices, they would be willing to pay a larger sum to the State; and any *additional* sum paid by them in these circumstances must be regarded, not as a rent, but as a tax on candles. The candle manufacturers would be constituted as tax-gatherers, and the amount they would be willing to pay would depend, amongst other things, on the amount of the tax or increase of price of candles they were allowed to impose. Thus of the total sum paid by the candle manufacturers, part might be described as rent for the privileges granted, and part as an indirect tax levied on candles.

(10) On similar grounds the sums which tramway companies are willing to pay to municipalities should be regarded partly as rents for the privilege of having no direct rivals, and partly as taxation on locomotion. If the trade is in any case bound to become a monopoly, the former is unobjectionable, the latter is not. No part of the sums paid should be regarded as rents for the privilege of going through the streets; for omnibus proprietors, the chief rivals of tramway companies, pay no such rents. Both tramway and omnibus companies pay the highway rates; tramways usually pay in addition the extra cost of putting down their lines; and on economic grounds either neither party should be called on to pay any other tax, whether concealed in

the form of rent or not, or both parties should pay it. Surprise is sometimes expressed at the amount of rent which tramway companies are willing to pay; but such surprise should vanish when it is perceived that the scale of prices permitted in tramway concessions may include a tax on locomotion which the companies merely undertake to gather. The fact that companies are willing to pay large sums is absolutely no proof that it is wise to make them pay such rents; that is to levy such indirect taxation in such a manner. In fact, if the foregoing arguments are sound, *high* rents should never be levied from companies owning concessions, reductions in prices or fares being insisted on in lieu thereof.

(11) It is obvious that it makes no difference, from an economical point of view, whether the managers of tramways, who pay rent to Local Authorities, are private companies or the Local Authorities themselves. The question of rent is not affected by municipalisation; and it follows that, if it is not intended to tax goods supplied by public bodies, the amount of rent which should be included in the cost of production of municipal trades should not be more than the saving which it may be supposed could have been made by private companies on account of *economies* arising from the prohibition of all direct competition if the works had not been municipalised. If a rent larger than this sum be included in the costs of municipal trades, the additional sum obtained from the public to cover this additional cost will be, in fact, a tax on the goods sold, the municipality being the tax-gatherer. Unfortunately, these considerations are excessively vague, and they merely point to the

inadvisability of Local Authorities drawing more than very moderate rents from their commercial enterprises. Beyond this, all that can be said is that, if a municipality makes its trading enterprises pay to itself exactly the same rent that it would have extracted from private companies under a system of private trade, it follows that in this respect Municipal Trade is no better and no worse than private trade. But municipalities, in fact, never show any rent as chargeable against their municipal tramways or other enterprises; and these arguments must therefore be held to apply to such portion of their gross profits as ought to be regarded as rents payable to themselves.

(12) The advocates of Municipal Trade have claimed that the cost of production can be reduced by public management because of the low rate of interest charged on municipal loans, and that prices can therefore be reduced without injury to any one. This question has already been discussed. In chap. vii. it was seen that *a priori* reasoning led to the conclusion that, if Local Authorities charge the same prices as private proprietors, the gains would probably be on the average insufficient to cover any of the annual repayments of principal; and from this it would follow that on municipalisation prices must be raised, not lowered, if no additional charge is to fall on the unbenefited ratepayer. In chap. viii. it was seen that the English Local Government Board Returns present the results of Municipal Trade in too favourable a light; but that, even thus viewed, it appears that the average gross receipts are only sufficient to cover the annual repayments of principal because part of the debt

has been redeemed. To absorb the net profits now actually made by English municipal undertakings by a reduction of prices would be to expend, in the distribution of bounties to the consumers of certain goods, the interest on a fund which the ratepayers have accumulated out of the proceeds of additional taxation. No doubt there are some industries in which the gross profits are, and always have been, sufficient to cover the repayments of principal and to leave a net profit available for some public purpose. But this net profit should not be absorbed by a reduction in prices to below the level charged in private trade, because it should be regarded as a fund available to cover the losses which must be made in other municipal enterprises. Thus neither theory nor statistics give any encouragement to the idea that prices can be reduced in municipal trades because of the low rate of interest charged on municipal loans.

(13) Again, it has been urged that the higher rate of wages paid in Municipal Trade necessitates and justifies a higher cost of production than that obtaining in private trades. But, if this be so, prices must then be higher in municipal trades than in private trades; and, in that case, any increase of wages above the normal level will amount to the payment of bounties to certain workmen out of the public funds. Even if it were possible to imagine a reason why such bounties should be given, there can be no reason whatever why the taxation necessary to enable them to be paid should fall entirely on the goods made by the municipality itself. In fact, when it is seen that

any increase of municipal wages above the normal level might just as equitably be paid out of general taxation, it will generally be agreed that such a higher rate of wages should not be paid.

(14) No very clear light, it must be admitted, has been thrown on the question by this discussion on the prices which should be charged and the profits which should be made in municipal trades. It can only be said that wages, though they ought not to be higher than those given in private trades, will, as a fact, be higher, and that the gross receipts will thereby be reduced. If no tax is to be imposed on the goods sold by municipalities, it can only be said that but a slight rent, or profit equivalent to a rent, should be drawn or made from municipal trades, and that, beyond this rent, probably no profit whatever should be made whilst the full interest and sinking fund charges have to be paid. It is true, however, that when competition is very indirect, a slight tax on the goods sold will do but little harm; for a slight rise in the prices of gas, for example, would not materially increase the use of other less economical methods of lighting. We may conclude, therefore, that while it is quite clear that no loss ought to be made, it is not improbable that a loss will be made whilst all the debts remain unredeemed; and that certainly very little net profit should be made whilst all these charges have to be met, the wisest rule probably being to aim at making none at all.

(15) In the foregoing discussion, attention has been exclusively devoted to the debt redemption period. A very different state of things will, however, arise when the municipal trading debts are

all paid off, and when it is no longer necessary to cover out of gross profits any charges for interest and repayments of capital. The arguments against charging prices on a higher level than those charged by directly or indirectly competing private firms still hold good in these circumstances. But, even if prices are maintained at a commercial level, a net profit equal to these no longer necessary charges will then probably be made, and the question arises as to what should be done with this net profit. Judging by English municipal undertakings, this question is not a small one; for, if after the redemption of all the debts the net profits were wholly devoted to, or absorbed by, a reduction in prices, the effect would be that prices would then, as compared with their present level, be reduced by about one-third on the average. In deciding whether the net profits should be disposed of in this way or not, it is to be observed that the operation of sinking funds for municipal trades may be regarded as, in the first place, a compulsory setting aside annually of a certain sum by the whole community, with the object of its being allowed to accumulate at compound interest; and as, in the second place, the investment of this sum in a commercial undertaking managed by the municipality itself. The operation ceases when the whole value of the municipal enterprise has thus been covered; and the question is whether the interest on this accumulated fund should then be given as a bonus to the ratepayer in the form of a reduction of taxation, or as a bonus to the consumer in the form of a reduction in prices. The consumer may claim it on the ground that the fund has been accumulated entirely out of moneys paid in by him; but this claim is only logical to the extent to which he has been forced to pay more for the goods bought from the municipality than he would have had to pay if the trade had remained in private hands; in proportion, that is, to the amount of the indirect taxation thus paid by him. The ratepayer, on the other hand, may urge that the fund was, in reality, created to a considerable extent out of additional taxation drawn from him; and that, where this was not the case, the municipalisation of the industry was, in fact, a speculation in which it was he who stood to lose; and, the speculation having turned out successfully, it is he who ought to reap the reward. Perhaps the latter claim is generally the stronger of the two, in which case no reduction in prices should be made, and the net profits should all go to the reduction of taxation.

(16) Little weight will perhaps be attached to the foregoing argument, and such questions should, without doubt, be settled on wider grounds. Taking the case of tramways, for example, it may be asked what harm would be done when the debts are all liquidated by reducing fares to such level as just to cover all the cost incurred in the business? More persons would travel in tramways, and fewer persons would travel in omnibuses; but would that be objectionable if the reason for the increased use of the tramways was the lowness of the fares? If the tramway companies could meet all future demands without any increase of capital expenditure, there

would, it will be seen, be no economical objection to fares being reduced and to all the profits due to the redemption of debts being absorbed in this way. But in all normal trades new capital will be required from time to time; and, whenever this is the case, there are several strong reasons why prices and fares in municipal trades should be kept up to the commercial level even if large profits are thus made. After the redemption of the municipal trading debts, municipalities could lower their fares by more than 20 per cent.; but, if they did thus reduce their fares to a level far below that charged either by private proprietors or by other municipalities with unredeemed debts, it would have a generally deterrent effect on trade. After fares had thus been lowered, it would become very difficult to persuade the public of the necessity of higher fares being charged in any circumstances. A municipality acting in this way would in consequence be less willing to extend its tramway system into new districts; because, in order to cover the interest and sinking fund on the new capital, it would have to face the odium of charging what would then be held to be unreasonable fares. Private companies in the same neighbourhood would in similar circumstances find it more difficult to get reasonable terms included in tramway concessions; and both private and public enterprise would thus be checked. This appears to me to be a weighty reason for maintaining that in the case of all monopolies the ratepayer, and not the consumer, should get the benefit when the municipal debts are liquidated.

(17) The same conclusion may also be reached

by regarding the matter from a more strictly economical point of view. Take the case of a town where there are municipal gas-works, the whole debt for which has just been redeemed, and where there are also newly established electric lighting works, either private or public, and, if the latter, with interest and sinking fund charges for the full debt to cover; and let it be assumed that the municipality is increasing its sales of gas to its original customers and also extending its gas mains into new districts, whilst at the same time electric lighting operations, public or private, are being commenced over the whole area. The municipality would have to raise some new capital on account of the extensions of its operations in gas, and consequently to create a new sinking fund; but it might, nevertheless, be able both to make a considerable net profit and also to reduce the price of gas considerably, unless, indeed, the new operations were very extensive. But a reduction of prices in these circumstances would be equivalent to a part of the interest on an accumulated fund being given by the municipality as a bounty in the form of a reduction of prices, not only to their original customers as regards their original supplies, but also both to the same customers for additional supplies and to all new customers in the newly opened districts. In this manner gas might be so reduced in price that it would cut out electricity even where electricity was more economical or in any other way preferable. Neither private nor new municipal electric lighting works would have an accumulated fund from which bounties could be drawn, and they would not, therefore, be competing on even terms. It might, perhaps, be argued that, if such a reduction in the price of gas were made, Local Authorities would find that any increase of consumption necessitating new capital would reduce their net profits; and that, consequently, no such increase would be sought for. This answer has, no doubt, much truth in it; for a reduction in price below a certain level has, as we have already seen, a tendency to check progress. But municipalities cannot as a rule refuse to extend their business, and, moreover, they would frequently fail to perceive that such extensions were not remunerative. Progress, in fact, cannot and will not be checked; and, if it could be checked, nothing would be more disastrous. Again, it might perhaps be suggested that the evil economic effects under consideration would not be felt if consumers were charged such a price for any additional supply of gas as would cover the interest and sinking fund on the additional capital required. This is perfectly true. But the suggestion would be futile because it would be difficult to charge different prices in different areas, and practically impossible to charge different prices to different householders on account of the different dates at which additional supplies were obtained. In fact, if municipalities are never to give a bounty which might have the effect of maintaining an obsolete trade in existence, the rule must be that the full commercial price should always be charged in municipal trades. Taxes and not prices must be reduced at the end of debt redemption periods, even if a large net profit is then made.

(18) The length of time allowed for the

redemption of loans and the method of redeeming them are important factors in determining the net profits of municipal trades, and it is important to ascertain as far as possible the principles which should be held in view in deciding on all legislation affecting municipal debts. The necessity for a sinking fund depends on the fact that without such an arrangement a risk would be thrown in perpetuity on the irresponsible ratepayers of the future; but such a consideration merely indicates that it is just to throw as much of the burden as possible on the existing generation of ratepayers. The grave objections already noticed[1] to loans being allowed to run for a longer period than the life of the plant, machinery, etc., purchased with the money thus raised affords a more definite principle on which to act, and one which the government departments concerned always appear to hold in view in deciding on the debt redemption periods. But this merely indicates a maximum limitation without giving any indication as to whether the period should be shorter, and, if so, how much shorter, than the life of the plant bought. The shorter the period the heavier will be the annual payments and the less willing will Local Authorities be to raise money; and, when loans are needed for necessary sanitary works, the period should therefore be as little restricted as possible. But in all other cases "the shifting of population, the alteration of "accepted standards of efficiency, the variation of "boundaries, the progress of science and discovery, "exceptionally heavy storms and a variety of other "causes, may upset calculations based upon even the

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[1] See chap. viii., par. 21.

"widest experience,"[1] and these considerations make it necessary to adopt a cautious attitude in fixing the debt redemption period. In fact, with reference to all the objects on the purchase of which municipal loans have been expended, we must consider for how long, on the average, are they likely to be a source of profit to the community. On the other hand, if the period were made too short, the charge for the sinking fund would, even in successful undertakings, have in reality the effect of imposing a considerable tax either on the ratepayer or on the commodity sold, either of which would be decidedly objectionable. Not only has the debt redemption period to be decided on, but the method of redeeming the debt must also be settled. The loan may be redeemed under a *sinking fund system* by setting aside a fixed sum annually and by allowing it to accumulate at compound interest until it is sufficient to pay off the whole loan. Or the loan may be paid off by the *instalment system* by the redemption each year of a certain definite fraction of the whole loan; in which case the charges for interest and redemption will be larger at first and less eventually than under the sinking fund system. Generally speaking, all the arguments which tell for short redemption periods also tell in favour of the instalment system; whilst the main objection to that system is that the varying annual payments introduce a certain difficulty in the fixing of prices in municipal trades. All these considerations are, it must be admitted, somewhat vague; and it can only be said that the existing practice does not appear to go contrary to them. This matter has been recently investigated by a Parliamentary Committee, and its report confirms the impression that no very material alterations are desirable in the existing procedure.

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[1] "Repayment of Loans," 1902, Report of Select Committee of H. of C., par. 33.

(19) There is, however, one point which has not yet been considered; for, in the foregoing discussion it has been assumed that either all or none of the municipal debts remained unredeemed. But, in the case of a very large number of municipal trades, debts are partially redeemed, and then considerable net profits may be made without prices being raised so high as in effect to impose a tax on the goods sold; and the question arises as to who should then receive those profits. The consumer has been put out of court; but should the ratepayer be the recipient, or should the money be used for the more rapid redemption of the municipal debts? If it be admitted that Municipal Trade ought not to be undertaken for the sake of making a profit, and also that it is undesirable to throw a risk on irresponsible or reluctant ratepayers, what objection can there be to devoting all such profits to the reduction of debts rather than to the reduction of taxation. One objection may, no doubt, be urged. Take the case, for example, of a municipality which, having paid off all its trade debts, is in receipt of a clear net profit of £25,000 a year from its trading operations. If this municipality were to borrow £100,000 for extensions of its trading enterprises, and if it were the law that all profits went to the redemption of debts, it would then find that all the net profit previously made was entirely absorbed during the next four years, and during the next

four years only. Any irregularity of revenue is objectionable, and any such sweeping proposal could not, therefore, wisely be adopted. But if the municipality were to raise this £100,000 on such conditions that 1 per cent. per annum was to be paid into a sinking fund whether there was any profit available or not, and that, say, an additional 1 per cent. was to be paid into the sinking fund out of net profits whenever such net profits were available, then the disadvantages arising from the consequent irregularity of revenue might be neglected. The instalment system is in my opinion the best for non-productive purposes; but, if the sinking fund system could be modified in some such way as this, it might still be the best for municipal trading loans.

(20) The following are therefore the conclusions arrived at with regard to profits and prices. For the goods supplied by them, Local Authorities should generally charge prices on the same level as the prices charged in private trades. The existing laws with regard to the redemption of loans do not require serious modification; though it would be as well to redeem loans somewhat more rapidly when any net profits made by trading at such commercial prices are available for the purpose. When municipal trading debts are wholly redeemed, the net profits, even if considerable, should be applied to the relief of taxation; when they are partially redeemed, part of the net profits should go to the ratepayer and part to hasten the redemption of the debts; and, before any debt is redeemed, very little net profit should be made, and then only when it is deliberately in-

tended to impose a tax on, or draw a rent from, the industry in question.

(21) Such conclusions, if accepted as being sound, would often be useful in deciding what ought to be done; though it by no means follows that they could be enforced on unwilling municipalities by Parliament. Certain modifications might, perhaps, be made with advantage in the laws affecting sinking funds; but great difficulties would be met with in any attempt to legislate with regard to the more vital questions of municipal profits and prices. A rough and ready rule which, if adopted, would approximately embody the foregoing conclusions, would be that municipalities should, *if possible*, make a *gross profit* of, say, 4 per cent. on the capital originally invested in the enterprise, and that they should let the *net profits* take care of themselves. But to enforce any such rule, and thus to prohibit municipalities from either imposing a tax on the goods they sell, or from levying a large rent from the industries they manage, would necessitate a rigid definition of the term "gross "profits"; and on this head many difficulties would at once arise. For example, a municipality owning tramways might perhaps legitimately account for a part of its receipts, not as profit, but as a rent paid to itself. Glasgow has paid out of tramway receipts £12,500 a year to a city fund called the Common Good, which payment is practically "a mileage on "the use of the street equivalent to what the old "company used to pay" to that fund;[1] and little objection can be raised to such payments if moderate. Would it be possible to enforce the inclusions of

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[1] M.T.R., Q. 2924.

all such sums in the gross profits if any restriction were placed on those gross profits? Again, if a municipality erects gas-works on leasehold property, any ground rent to be paid for the land should undoubtedly be included in the cost of production; but, if the municipality were instead to build gas-works on its own ground, might it then charge a rent against that enterprise, and not include that rent in the gross profits? Might a similar rent be charged for the use of public buildings? These questions, and others connected with depreciation, reserve funds, repayment of losses in previous years, etc., etc., raise innumerable points, all of which would have to be dealt with in any Act of Parliament regulating municipal profits. A most elaborate central system of inspection both of the accounts and of the works themselves would, moreover, be necessary if Parliament were determined to see that its decrees were enforced. General words might be included in an Act of Parliament in order to indicate generally to Local Authorities what they *ought* to do with regard to profits and prices; but any statutory provisions beyond this would be attended with the greatest difficulties. Municipalities must be trusted with wide powers with regard to the management of all the enterprises they are permitted to undertake.

(22) In order to remove a harmful temptation to undertake municipal trades, it has often been suggested that the making of net profits should be altogether prohibited; or, at all events, that taxation should never be relieved by the appropriation of such profits to general municipal funds. But not only would the difficulties attending the

regulation of prices and profits be felt to the full if any such attempt were made, but such a step would be attended with definite harmful consequences. If, after municipal loans had been wholly or partially redeemed, all the profits were absorbed by a reduction in prices, the same harmful effects on trade would be produced as those resulting from the award of considerable bounties to the consumers of certain goods. Profits, it may be said, are prohibited in Scotch municipal trades. But this fact can hardly be quoted as a proof of the wisdom of this prohibition, especially as the harmful consequences will not be felt to nearly their full extent until the municipal loans have been redeemed to a far greater degree than is the case at present. Profits may also be absorbed in other ways; as, for example, by their transference to funds like the Common Good of Glasgow, to which certain tramway profits are now paid. But, if such funds cover any expenditure which would otherwise come out of the rates, any payments to them would have somewhat the same effect as the direct use of profits for the relief of taxation. If, on the other hand, such funds are used exclusively for services which would in no circumstances be paid for out of local taxation, any contributions to them out of public funds would often lead to extravagance. Thus it is extremely difficult to devise any enactment for the prohibition of profit-making which would be both practical and innocuous; and it would be both impracticable and unwise to attempt to lessen by any such means the temptations resulting from Municipal Trade.

(23) As we have seen, profits may err in being

either too large or too small; and legislation cannot be effectively applied as a safeguard against either error. In spite of all possible legislation, the ratepayer or the consumer must run some risks as the result of Municipal Trade, and no law could be devised which would in all cases prevent the ratepayer being called on to pay part of the interest and sinking fund charges on municipal trading debts. If the commodity supplied were one like water, which is universally used, no ratepayer would have a well-founded ground of complaint at being forced to take such risks; neither is there necessarily any injustice in Local Authorities rendering a service to a minority of the inhabitants when the indirect results to the whole community are beneficial. But in all cases in which ratepayers incur risks without receiving any benefit, they may legitimately demand some compensation; a compensation which could only be the award of a premium in the form of a reduction of taxation. But such premiums must come out of net profits; and the making of a net profit whilst the debts are being redeemed—that is, during the only period of risk to the ratepayer—is generally open to the economic objection that prices must be raised to such a level as to be equivalent to the imposition of a tax on the goods supplied. The unbenefited ratepayer cannot wisely be given compensation in the only way possible for the risks imposed on him, and when the risks are considerable, and when the number of consumers presumably benefited is small, this constitutes a very serious objection to Municipal Trade. Frequently in England not more than 15 per cent. of the houses in a town have electric installations or are fitted with telephones; and, as regards these and similar municipal trades, it is difficult to see what justification there is for imposing a risk on any individual who receives no corresponding advantage. As to these municipal trades with regard to which it is inequitable to throw a *risk* on the unbenefited ratepayer, it is obviously still more inequitable to sell the goods made at such prices as to necessitate an actual *charge* being thrown on the rates; and against neither of these grievances can legislation provide an effective safeguard.[1]

(24) With regard to the suggested prohibition of profit-making in Municipal Trade, it is to be observed that prices being placed on too low a level is a more probable contingency than their being placed on too high a level. The average voter is keenly alive to the advantages of low prices; whilst he hardly recognises the fact that rates, and consequently rents, would be increased in consequence of a decrease in his municipal gas bill unless accompanied by a corresponding decrease in the cost of production. Taxation he regards as fate; whereas gas-works do appear to him to be under human control. Prices must fluctuate from time to time; and Local Authorities, though willing to gain credit by lowering prices when profits would otherwise tend to increase, will not raise prices again when profits are shrinking, preferring to increase taxation instead. The inevitable oscillations in the cost of production will therefore tend to cause a continual downward movement in prices in municipal trades; and this movement could hardly

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[1] M.T.R., Qs. 857, 3827, 3872, etc.

be arrested by general legislation even though the inevitable result could be proved to be an economic loss to the community. The charging of too low prices is especially probable after a considerable proportion of the debts have been redeemed; for then no unbenefited ratepayer need necessarily have any burden thus thrown on him, and in the absence of such additional taxation he would have no apparent cause for complaint. But the making of a net profit which is then probable is no proof that prices are not too low, or that an inferior trade is not being kept alive by the award of a bounty to its consumers. Prices should always be kept up to a certain level; and for this reason it would appear to be unwise to pass laws tending to impose any limitation on profits unless accompanied by legislation tending to keep up prices to the required level. But it would be impossible by law to force municipalities to raise their prices to that indefinite level at which no economic evil effects would be felt.[1]

(25) Another subject requiring the attention of the Legislature is the extension of municipal trades beyond the boundaries of the municipalities undertaking them. Such extensions come about in various ways. The area supplied by a private gas company, for example, seldom coincides exactly with any local government area; and, since it would as a rule be practically impossible to divide up an industry into fragments corresponding to the different local government areas supplied, municipalities purchasing

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[1] On the general question: "Ought municipal enterprises to be allowed to yield a profit?" see also Edwin Cannan in *Economic Journal*, March 1899.

going concerns must frequently undertake duties in districts outside their boundaries. Again, when Town Councils are constructing tramways, it is often most desirable to run them out into outside populous districts in order to make the parts within the municipal area as profitable as possible; and, moreover, the crossing of other Local Government areas in many cases cannot be avoided if two portions of the same municipality are to be connected by tram-lines.[1] When the other Local Authorities concerned are not willing to take any part in the management of these growing industries, this trading outside the municipal area cannot well be avoided.

(26) But whether avoidable or not, this class of municipal enterprise gives rise to many difficult questions connected with the prices which a municipality may equitably charge to customers in areas not under its control; in what may for convenience be called the "outside areas" in contradistinction to the "inside area" under the government of the Local Authority owning the works. First let it be assumed that the prices charged *are nowhere so high as in effect to impose an indirect tax* on the goods supplied. In considering whether the charging of a lower price in the inside area as compared with that charged in the outside area by the same municipality — a preferential charge, as it may be called—is objectionable or not in these circumstances, it may be urged with truth that a sinking fund should be regarded mainly as an accumulation of insurance premiums due but not paid to the ratepayers taking the risk; that

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[1] M.T.R., Q. 115.

is, to the ratepayers in the inside area; and that, such being the case, the ratepayers in the outside areas ought to have no voice in determining to what use the interest arising from this accumulated fund should be put. The inhabitants of outside areas could raise no strong objection if the whole of the interest from this fund were to be given as a bonus to the inside ratepayers; or, in other words, if the profits made in municipal trades *in consequence of the partial or total redemption of debts* were all to go in the relief of taxation in the inside area. Neither could they object if the interest in these circumstances were all to be given as a bounty to the consumers in the inside area; or, in other words, if the net profits were all to be absorbed by lowering prices in the inside area without lowering them in the outside area. It is indeed difficult to see how a Local Authority can justify its action in throwing any risk due to trading in outside areas on its own ratepayers without securing for them the full benefits arising from the speculation if successful; and, although this points to a reduction of rates in the inside area rather than to a reduction of prices, the outside ratepayer thus far appears to have no grounds of complaint in consequence of preferential prices being charged in the inside area. In fact, nothing has been said thus far to indicate that preferential charges are unjust. Unfortunately we have, however, no justification for assuming, as we have done, that prices will not be raised by municipalities to such a level as in effect to amount to the imposition of an indirect tax on the commodities sold; for such action on the part of Local Authorities cannot be prevented. If municipal trading in outside areas be permitted, it will inevitably place in the hands of town councillors the opportunity of raising an indirect tax from ratepayers whom they do not represent for the benefit of ratepayers or consumers whom they do represent. Such taxation cannot be justified in any circumstances; and if the same indirect taxation is raised within the inside area—if differential charges do not exist—it does not, in reality, make this taxation in the outside area less unjust. Any reduction of rates in the inside area in consequence of large profits being made by charging high prices in the outside area, will be no more just because high prices are also charged in the inside area. Municipalities will, however, be far less likely to raise indirect taxation of this kind in outside areas if they are obliged to charge the same prices everywhere; because in these circumstances a tax on the outside consumers would necessitate a tax being also levied on their own constituents, the inside consumers. Preferential charges should for this reason be absolutely prohibited; for, though this would be but a feeble safeguard against unjust indirect taxation, it is the best safeguard available.

(27) If preferential charges are prohibited, it is true that when outside trading takes place, the inside ratepayer may incur a risk for which he gets no benefit. But where the Local Authority of the outside area is willing to join in the commercial venture, the whole business should, if possible, be managed by a Joint Board representing all the areas concerned. No outside trading would then take place; all the ratepayers concerned would

share alike in the risk; and all would have equal opportunities of bringing their complaints to the notice of the managing body.[1] The difficulty of establishing such a system does not, as a rule, lie with the outside Local Authorities; they would be willing enough to join. But the Corporations of large cities, who would in any case have the bulk of the trade carried on within their own area, would generally dislike the intrusion of a small outside element into the managing body of that trade. Thus friction would probably arise if management by Joint Boards were enforced by law; and the distribution of profits amongst the various parties concerned would, moreover, present some difficulties. Such a method of managing municipal trades covering many areas is, however, the only equitable plan; and, if it is generally rendered impossible by the action of what would be the larger partner in the joint concern, this impossibility points to a serious objection to all municipal trading. Whether the appointment of Joint Boards could be generally enforced by Parliament is, therefore, very doubtful; but they have in several instances been established by special Acts, and their establishment should certainly be facilitated in every way. If all disputes between Local Authorities concerning the formation and action of such Boards (such, for instance, as the proposal to charge higher gas rates to more distant areas on account of leakage) could be referred to the Commission the establishment of which will be advocated in the next chapter, the abolition of outside trading by the formation of Joint Boards might be facilitated.

[1] M.T.R., Qs. 212, 867.

(28) Passing on to discuss questions unconnected with prices, probably the most serious evil to be anticipated from Municipal Trade is municipal corruption; and here we have to consider whether the law can be so amended as to lessen this danger. It has been suggested as a safeguard that all voters in the pay of any public body should be disfranchised as far as the election to that body is concerned.[1] Such a reform may well be urged even by those who generally advocate a widely extended franchise; for it would undoubtedly produce beneficial results by removing the temptation felt by candidates to endeavour to catch the votes of the employees by making objectionable promises. But in my judgment there is practically no chance of such a reform now being adopted. A preferable scheme would be to allow the municipal employees, if they were sufficiently numerous in any locality, to be separately represented on the Council; to incorporate them, as it were, into a separate constituency returning one or more members. No one would thus be disfranchised; the representative of the employees would be an open advocate of their claims, and his position would be one which might honourably be held by any man; and the other constituencies would be freed from the corrupting influence of paid voters. Any such plan would, no doubt, introduce complications into the electoral system. These difficulties might, however, be overcome; but what could not be overcome would be the objection of the "practical" Englishman to all "faddist" proposals; that is, to all novel schemes the merits of which he cannot readily appreciate. There are, in fact, no additional

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[1] M.T.R., Qs. 1947, 2304.

statutory safeguards against municipal corruption known to me which Parliament could now be induced to adopt.

(29) As regards the check on commercial progress due to the introduction of a centralised system, which is the other main objection to Municipal Trade, it is inherent in the system, and can hardly be mitigated by legislation. It has been seen that municipalities are apt to adopt what may be described as a "dog in the manger" policy. Provisional Orders are taken out by public bodies with little intention of utilising them, but rather with the view of preventing private traders from entering the field. Some change might be made in the direction of dealing more drastically with the question of time limits for the completion of public works; and no doubt some little good might be done in this way.[1] But the law will never be able to prevent the placing of industries in public hands from producing a deadening effect until it is able to alter human nature.

(30) Certain questions connected with the law, or the methods of framing or administering the law, with regard to certain matters of less importance are worthy of careful consideration. According to the present practice of Parliament, either the authorities of the Houses, or one of the government departments, have, in effect, the power of making municipalities and private promoters strike out clauses from Bills and Provisional Orders which are in certain respects held to be objectionable. For example, Local Authorities when not forced to supply goods, would not now be allowed to obtain powers of recovery of debts in excess of those ordinarily

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[1] M.T.R., Q. 3961.

possessed by private traders; though such powers are sometimes asked for.[1] Nor would the power to manufacture electrical or gas fittings normally be granted to municipalities, because these trades are at present held to be unsuitable for municipalisation; though how long such limitations will survive it would not be safe to predict.[2] Unfortunately, municipalities have sometimes acquired such objectionable powers when they have bought undertakings from private companies whose concessions date from times when the authorities were less careful. There appears to be a difference of opinion as to whether these matters could be set right when the industries in question pass into public hands; but this should, without doubt, be effected as far as possible.[3] Although it is anticipating the discussion on private trade, it may be here noted that it follows from these considerations that private companies obtaining special Acts or Provisional Orders to enable them to undertake monopolies should as a rule not be granted any powers which would be held to be objectionable if the works were municipalised; a principle already partially recognised.[4]

(31) In considering whether Municipal Trade should be encouraged or discouraged, it is of the greatest importance that we should be able to ascertain the exact truth with regard to existing public enterprises. At present our knowledge of the average financial results of the municipal trades of England is very defective, because of the "most complicated and confusing shape in which the accounts of most local bodies are drawn up."[5] Many

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[1] M.T.R., Q. 497.
[2] *Ibid.*, Q. 433.
[3] *Ibid.*, Qs. 541, 626, and 3946
[4] *Ibid.*, Q. 447.
[5] *Economic Journal*, March 1901, p. 21, J. Row-Fogo.

Local Authorities now appoint their own auditors and the Councils of our large cities would very probably resist any reform which actually abolished this privilege. But the law insures that the auditors of private companies should be, as far as possible, independent of their directorates, the object being to safeguard the shareholders, and to enable them to obtain correct information as to the finances of the business; and without doubt the law should in the same way insure the independence of the municipal auditor from all interference on the part of Town Councils thus safeguarding the interests of the ratepayers, and probably facilitating them in their endeavours to form correct judgments on questions affecting the finances of their municipalities. No doubt, the best plan would be for all municipal auditors to be appointed by the Central Government, as is at present the case with the London County Council and with most local governing bodies other than Municipal Corporations. Auditors thus appointed should not be satisfied with merely seeing that all the payments made were covered by the law, but should carry out a thorough audit on commercial principles. The report of the auditors should be printed and a copy given to every ratepayer; just as every shareholder sees the company auditor's report. The powers and duties of all Government auditors should be clearly defined, and probably increased so as to enable them to deal more effectively with illegal payments. But if Parliament, having in view the susceptibilities of the great municipalities, could not be induced to face such reforms as these, it might, at all events, enact that the approval of the

Local Government Board should be obtained to the appointment of any municipal auditor, a measure which would enable a certain pressure to be applied with the view of securing greater uniformity and clearness in the accounts of municipal enterprises.[1]

(32) In this chapter we have been considering, not what trades Parliament should permit municipalities to undertake, but what laws could be passed which would minimise the disadvantages arising from such municipal trade as is undertaken. Some modification might be made with advantage in the legislation affecting sinking funds; preferential charges should be prohibited; and auditors should always be appointed by the Central Government; but in addition to these reforms, little, it appears, can be done to lessen the dangers and disadvantages arising from the public management of industries. It must, in fact, be admitted that, even if all these changes were made, the total reform would not be of sufficient importance to affect materially the comparison between public and private trade.

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[1] M.T.R., Qs. 356, 555, 3162, and 3865. The subject of Municipal Audit is now being considered by a Joint Committee of Lords and Commons. See Appendix. See also with regard to the United States, *Annals of the Am. Acad. of Polit. and Soc. Science*, Prof. J. R. Commons, vol. v. p. 873.

XIII

LEGISLATION AFFECTING PRIVATE TRADE

(1) CERTAIN social reformers have argued in favour of Municipal Trade that it is practically impossible adequately to regulate the scale of wages or the hours of labour of workmen in private trades, and that the present industrial system must, therefore, be wholly abandoned. To reply to such a contention would open up the whole question of Socialism, a discussion beyond the scope of this volume. But if it be admitted that private trade and Municipal Trade must exist side by side, there appears to be no reason why all legal compulsion applicable to private employers with reference to the treatment of their employees should not be made equally applicable to Local Authorities with reference to the treatment of their employees. Any such legislation affecting private trade should also affect Municipal Trade, and no such legislation should, therefore, affect the comparison between the two. Legislation with regard to the price and quality of goods is generally unnecessary in competitive trade; but where it is necessary, it should be applicable to both public and private trade. It is not, therefore, necessary here to discuss the advantages or disadvantages which would result from legislation affecting *competitive* trades under private manage-

ment whether such legislation be for the protection either of the workman or of the consumer.

(2) With regard to trades tending to become monopolies the case is different. Exceptional legislation has been applied to these trades, and it is a question whether this legislation does not require amendment to make it suitable to modern conditions. It is only certain industries the management of which is at present undertaken by municipalities to any considerable extent; and those who see dangers and disadvantages in any wide extension of municipal trading, should regard it as a duty to consider whether it is not possible by legislation to lessen the evils now arising from the private management of all trades likely to be municipalised. In this way alone can the more substantial arguments in favour of Municipal Trade be really weakened. The movement in favour of the public management of many industries is so vigorous that a merely passive resistance will do little to hinder it; and, both for this reason and because the existing legislation with regard to private trade is in an unsatisfactory state, its reform should be taken in hand at once. The revolution in the methods of modern industry is making such reforms more and more necessary. The increasing use of machinery, the discovery of the economy arising from great industrial combinations, and the relative increase of the urban population, all tend to render competition less probable and less effective. On the other hand, various social changes have contributed to increase the strength, though perhaps not the wisdom, of the opposition to the private management of many trades. It is these modern conditions which foster Muni-

cipal Trade, and which make it more than ever advisable to modify the existing legislation affecting private trade.

(3) The questions to be considered may be divided under two heads—(1) What regulations should be enforced with regard to private companies in future *starting* trades tending to become monopolies? That is to say, what should be done when the question is not complicated by previous legislation or existing contracts? (2) What changes should be made in the legislation affecting companies *already in the possession of concessions*, and what regard should be paid to the rights thus acquired? It will be best to begin by considering the first of these questions; and then, after deciding what is the wisest course of action when the slate is clean, to go on to consider how far it is just and practicable to bring existing companies under any proposed new regulations.

(4) In opening this discussion, we should first attempt to obtain a general idea of the ends which the Legislature should hold in view when amending the present laws. On the one hand, as regards the consumer, he should be enabled to get the best possible return for his money; whilst, as regards the ratepayer, the unearned increment should, as far as possible, be made to become public property. On the other hand, the promoters and managers of private industries should be in every way encouraged in order that the public may reap the advantages due to the rapid development of the trades initiated and managed by them. These are the antagonistic conditions which have, in nearly all cases, to be reconciled by a compromise based on no very

scientific principle. In the United States during the middle of the nineteenth century, "an epidemic "for helping private enterprise with public funds "passed over the land"; the object being to make the progress of commercial development as rapid as possible; and in America generally the mistake seems to have been made of paying too much attention to this side of the question.[1] In England the electrical trade was at first greatly crippled by the strictness of the terms offered to private promoters, the object sought being to secure various possible future advantages for the public; and this is an example of the opposite error, which has been the one most commonly made by us in recent years. To discuss the ultimate basis on which should rest all decisions on questions arising on account of the conflict of these opposing principles would lead us very far afield. How shall we weigh the advantages of an even distribution of wealth against the advantages of an increase in the total volume of wealth? How shall we compare the benefits felt by an existing generation as the result of rapid development against the harmful effects felt by the next generation in consequence of the progress made not having been in the right direction? These are in truth the underlying problems in such discussions; but here all that can be said is that these antagonistic principles should always be clearly kept in view when the various questions are being discussed. We must endeavour to balance the demand for rapid development or for the immediate satisfaction of wants against the demand for low prices and light taxation, and to obtain as suitable a compromise as possible between these antagonistic demands.

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[1] "Municipal Trading in England and the United States," Hon. R, P. Porter, p. 6.

(5) If it could be shown, as regards the past, that a fair compromise had been arrived at, and that both of these opposing principles had been duly considered, nothing more would have to be said on this subject. But this clearly has not been the case. On the one hand, concessions have often been offered to private promoters with little thought as to whether the terms proposed make it possible or impossible for an adequate return to be made on the capital invested. On the other hand, very little consideration has generally been given to the means of enforcing attention to the complaints of consumers. With regard to private gas and electric supplies in England, for example, householders may grumble if badly served, but they can do little more than grumble, unless it be to advocate municipalisation. Where such a right as that of interfering with the public streets is granted to a private company, and where a monopoly is thus created, it is unreasonable for the State not to retain the right to enforce suitable regulations safeguarding the consumer.

(6) Having sketched out the objects to be held in view, and it having been seen that these objects have been unequally attended to in the past, the question remains as to whether it is not possible now to introduce beneficial reforms. The promoters and managers of private companies may be trusted, as a general rule, to advocate with at least sufficient force the necessity for progress and development, and the consequent objections to the restriction and taxation of concessions. Local

Authorities would naturally look forward to acting as the mouthpiece of the discontented consumer supplied by any monopoly, demanding for him lower prices, better quality, or more accommodation; and these bodies can, therefore, be trusted to advocate the introduction of clauses into concessions designed for the purpose of safeguarding the consumer. Here, therefore, we have, as it were, the two opposing counsels ready to argue the case before the tribunal, whatever it may be, to which is entrusted the duty of deciding on the terms under which private companies are to be permitted to trade. But to whom should this duty be entrusted? Who should act as the judge in such a Court?

(7) It must, in the first place, be remembered that the questions which have to be decided include not only the terms of the original concession, but also various decisions as to the justice of the complaints brought forward after the concession has been granted, either by consumers or by Local Authorities acting for the consumers generally. Though it need not be so arranged, yet it would be advisable that both classes of questions should be decided by the same tribunal; for, in this way, it can best be assured that all decisions on complaints are decided in harmony with the understanding between the parties which existed when the concession was granted; and, moreover, the technical knowledge acquired by the adjudicating body in one set of enquiries will be useful in the other. One tribunal should, therefore, arbitrate both as to the terms of the concessions to be granted, and also as to the disputes arising out of these concessions after they have been granted.

(8) If this principle of one tribunal be accepted, then neither the Law Courts, nor Parliamentary Committees, nor Government Departments are quite suitable for the work to be done. All of these have done excellent work in the past, yet it is true that the existing system is capable of improvement. Should the municipality itself be judge as well as counsel, thus finally deciding on all disputed points both as to the granting and as to the interpretation of concessions? Although Local Authorities are the representatives of the local public, that is, of the persons most affected by the granting of any rights, yet to make them act in this dual capacity would be very objectionable. In the first place, Local Authorities must not only undertake the duty of advocating the interests of the consumers, but they must also advocate the claims of ratepayers. Now the claims of ratepayers and consumers are often antagonistic to each other; as, for example, when those wanting electricity demand a cheap supply and when ratepayers hope that the companies concerned will be forced to pay rents into the municipal treasuries whatever might be the effect of such rents on the price of electricity; and an elected body cannot be an absolutely impartial judge between the demands made by the many voters who are ratepayers and the few voters who may become consumers. In the second place, Local Authorities, whether mainly concerned to defend the interests of the ratepayers or those of the consumers, would probably give but scanty consideration to the interests of the promoters or shareholders of the companies seeking concessions; for, the majority of

even the more thoughtful representatives would not consider it their duty to consider that side of the question. This is a fundamental disqualification which cannot be eradicated. If the arguments of the capitalist as to the terms of concessions are not fairly weighed in the balance, capital will not be forthcoming, and the works will not be started. As to the disputes which may arise after the granting of a concession, justice to the shareholders means that the concession should be interpreted in the sense in which it was understood when it was made; alarm would be caused by even a suspicion felt by investors as to the possibility of their interests being injuriously affected by unexpected decisions as to their rights; and such alarm would check progress, to the immediate injury of the public at large. It is essential that it should be known that the judge in such disputes is not prejudiced against the shareholders' interests, and this condition makes Local Authorities in England peculiarly unsuitable bodies to act as arbitrators in any conflict between the promoters and managers of monopolies on the one hand, and the consumers and ratepayers in the localities affected on the other. In other countries, elected bodies may be unsuitable for exactly the opposite reason; for many instances could be cited of municipalities paying too much attention to the demands of capital, especially where corruption prevails or where the shareholders in companies demanding concessions are numerous and mostly voters. For all these reasons, a judicial and not an elected body should have the last word on all disputes concerning concessions.

(9) Whatever be the nature of the judicial body appointed to decide such questions, its proceedings must, of course, be largely guided by the statute creating it. But it would be almost impossible adequately to protect the interests of consumers by general provisions in Acts of Parliament, because the possible subjects of dispute would be so numerous; and some discretion must be allowed to the arbitrator if the protection of these interests is to be attempted. Or it would, perhaps, be more correct to say that, in all cases where price, quality, or increased accommodation are the subjects in dispute, it is essential that the judge should rely to a certain extent on his own special and technical knowledge in giving his decisions. For this reason, this matter is not one which should be left in the hands either of the ordinary courts of law or of Local Authorities. As regards the latter, a small municipality would be unable to cope with the expert advisers of powerful private companies, such as tramway construction companies; and the knowledge that this was the case would make it unlikely that a wise decision would be arrived at. And the committees of large municipalities, not understanding the questions thoroughly themselves, would be too much influenced by their own technical advisers.

(10) In some cases, as just observed, Local Authorities might be tempted to favour unduly the capitalists in negotiations with regard to concessions; in which case the consumers and the ratepayers would have no proper advocate to represent their interests. To guard against this danger, something more might be done by the

Legislature, model clauses to be normally inserted in new concessions being perhaps drawn up more frequently and under more definite authority, and some method being adopted of insuring that the attention of the Legislature would be called to any departure from these models. But "it is certain that as between central administra- "tive control and legislative control, the former has "been much more efficient in keeping Local "Authorities within bounds;"[1] and it would consequently be well that a representative of the Central Government, that is either of the Local Government Board or of the Board of Trade, should have the right to appear before any tribunal created to deal with these questions.

(11) Thus, in deciding on the terms of concessions and in dealing with the disputes arising under concessions already granted, it appears that there are four functions to be performed, and that there should be four parties to perform them. The promoters and the proprietors of the private companies concerned will urge the necessity of new schemes, and will advocate the views of the shareholders. The Local Authorities will represent the interests of the consumers and the ratepayers. The Local Government Board or the Board of Trade will see that this duty is performed, and will call attention to any departures from model clauses. And, lastly, some judicial body should be established to act as judge, and to give a decision on the questions brought before it. This judicial body must be of a technical character, and should be subject to no local influences, whether of shareholders or of con-

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[1] "English Local Government of To-day," Maltbie, p. 202.

sumers. It would be best that such a body should be nominated by the Central Government, and we are, in fact, driven to the conclusion that a permanent Commission or Commissions should be appointed to deal with all questions affecting concessions.

(12) No Commission exactly corresponding to that proposed to be established exists in England, the Light Railway Commission created by the Act of 1896 coming nearest to it. Private Bill Committees in Parliament are only concerned with the passing of the bills by which the concessions are granted; and in their deliberations the interests of the public have often been most inadequately considered; as, for example, the little care that is taken to force railway companies to make proper arrangements to facilitate the interchange of passenger traffic between different systems. The Railway and Canal Commission has nothing to do with the granting of concessions to companies; and, on the other hand, the Light Railway Commissioners have no power of interference after the concessions have been granted. In the United States the problem has been dealt with more satisfactorily; and the Massachusetts Commission will be briefly described as an example of the way in which an apparently successful body has been created elsewhere. The powers possessed by this Commission are very drastic, and a brief description of them will serve as an introduction to the discussion as to the powers which ought to be granted to an English Commission, if one were established.

(13) "The highest development of public "control over private lighting corporations in the

"United States is that exercised in Massachusetts "by the State Gas and Electric Lighting Commission. This Commission was established in 1885 "to supervise gas companies; and two years later "its powers were extended to include electric light "companies. It consists of three members appointed "by the Governor and Executive Council for three "years, one member retiring each year. The "members receive a salary, and are not permitted "to engage in any other business. They can be removed only for cause, after notice and a hearing."[1] It is their duty to see that the law is obeyed, and they have practically unlimited inquisitorial powers. Upon receipt of a complaint, and after public hearing, they may order any reduction in price or improvement in quality. "In these investigations the Commission does not act simply "as a Court, bound by legal rules of evidence and "procedure; but proceeds on its own initiative, and "applies all its knowledge concerning, not only the "case in hand, but the business of every company "in the State."[2] The concessions are in theory perpetual; but in reality this arrangement makes them revocable at the discretion of the Commission at any time. The result is that there is a marked absence of all technicalities, reservations, and safeguards in these concessions; as they are, in fact, unnecessary. In the Report of the Special Committee appointed to investigate the relations between cities and towns and street railway companies in Massachusetts in 1898, it is stated that this plan works well, though in theory it "is to the last degree

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[1] "Municipal Administration," Fairlie, p. 290.

[2] *Ibid.*, p. 290.

"illogical"; and that it was very noticeable that no "change was advocated by the representatives of the "municipalities, or of the companies, nor apparently "did the suggestion of such a change commend itself "to either." "The companies preferred, on the whole, "a franchise practically permanent, though never "absolutely certain, to a fixed contract tenure for a "shorter term, subject to the danger of alteration at "every periodical renewal."[1] Such an arrangement would be expected to frighten away capital; but the answer is that it apparently has not done so.[2]

(14) In proceeding to discuss the functions of any such Commission, it is to be observed that, if in accordance with the suggestion already made, it were decided to place in its hands the granting of municipal concessions to private companies, Parliament would, nevertheless, in all probability desire to keep the ultimate control in its own hands. If this were the case, it might be enacted that the decisions of the commission should require the sanction of the Legislature in the same manner as is the case at present with regard to Provisional Orders; a system which would thus be largely or entirely superseded. Parliament cannot constitutionally divest itself of the right of passing private bills; and the passing of a general Act creating a Commission and giving to it the power to deal with water, gas, electrical, tramway, and other similar schemes, would not prevent attempts being

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[1] "Relations between Cities and Towns and Street Railways," Massachusetts, Special Committee, 1898, p. 18.

[2] See also "The Gas Commission of Massachusetts," by J. H. Gray, *Quart. Journal of Economics*, p. 209, vol. xiv., 1898-1900; also the Report of the Special Committee of the New York Assembly on "the Municipal Ownership of Street Rail-Roads" of 1896, p. 22, to show that a somewhat similar arrangement is there approved for street railways.

made to evade the jurisdiction of such a Commission by private legislation. To meet this difficulty, Parliamentary Standing Orders should be made to provide that all bills by which it is sought to obtain any such rights for private companies should first be referred to the Commission, and that no bill should be proceeded with unless the Commission reported that the proposal it contained was of an exceptional nature, rendering special legislation advisable.

(15) The next point to be considered with regard to the powers to be placed in the hands of such a Commission is whether the consent of the Local Authorities concerned should be necessary before the Commission could grant any concession. This is a matter of considerable difficulty. The Local Authorities interested should undoubtedly have the right of appearing before the Commission, and great deference should and would always be paid to their wishes and views. But to give to the Local Authorities an absolute veto on all concessions is to place a considerable temptation in their way; for they may use that veto either to keep the field open for themselves or as a threat to extort rents or other services from private companies. If the veto was only used to block schemes really held to be objectionable the result would probably be, on the whole, beneficial; but, when used with the above-named objects in view, it may seriously impede commercial progress. It appears to me that it would be unwise to give to any body which is not responsible for the final decision the power of absolutely preventing the granting of any concession.[1]

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[1] M.T.R., Qs. 1527, 1666, 3953, and 3959.

(16) In establishing a Commission to deal with monopolies, it would be advisable to decide the broad lines on which concessions should be granted. In discussing such questions, it should, however, be remembered that most of the reforms here suggested could be adopted even if concessions were granted as at present by private bills or by Provisional Orders. That some reform is necessary can hardly be doubted when the want of system and the absence of guiding principles in the existing arrangements are realised. For example, the general policy of Parliament has been to refuse to allow competition between Local Authorities and authorised gas undertakings; but to permit such competition against electrical undertakings, both by Local Authorities and by rival companies;[1] an example which raises the broad issue whether it is expedient, and, if so, in what circumstances, to grant an absolute monopoly to private traders.

(17) It has already been seen in a previous chapter that amalgamations frequently take place between rival private companies undertaking trades for which concessions are required, and that, consequently, competition is not maintained. The main cause of this tendency is the desire to avoid the waste of capital due to competition between rival firms and the hope of thus obtaining a corresponding increase of profits. But, whatever may be the cause, experience shows that competition in a considerable number of trades is very apt to die a natural death; and that any attempt to keep it alive may be attended with peculiar disadvantages. The frequent breaking up of the

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[1] M.T.R., Qs. 47, 195.

streets when rival companies are competing for the supply of water, gas, or electricity, is often an intolerable nuisance. Then, again, the public can get better terms from private proprietors by granting to them absolute monopolies, and nothing will be lost by such grants if direct competition is in all circumstances certain to cease. Lastly, the "wars" between rival companies are often disastrous to all but company promoters. If, for example, one company has acquired the right to supply gas in a certain locality, and if, for the sake of creating competition, a concession is granted to a second company, then this second company will be tempted to use its acquired rights to force the first company to buy up both these rights and any works that may have been constructed. American experience proves that an attack of this kind is generally a far more profitable undertaking than the actual establishment and maintenance of a rival concern; and that it is a proceeding difficult to prevent. Transactions of this kind are not only of no use to consumers or ratepayers, but they are positively harmful; for they render it impossible for the attacked companies to serve the public as well as they could have done if they had not thus been bled. Where there is absolute free trade, the old company would not allow itself to be "squeezed" by the new one in this way; because there would be no advantage in buying up one concession when another concession would be granted immediately to any fresh applicant. Thus, though free trade is the best commercial system, an attempt to regulate trade on any system half-way between the system of free trade and the system of absolute monopoly is likely to produce the worst possible results. According to the report of a committee in the United States, "wherever there was more "than one company operating in the streets of a "city, there was liable to be a contest, generally "over grants for extensions," and "the worst conditions were found in localities where rival companies "were contending for grants in public ways."[1] In France, in almost every case it has been deemed expedient to grant tramway concessions in each town to one company only in order "to secure "coherence and uniformity in method, to secure "transfer privileges, and to focus responsibility";[2] and this is, I believe, the right system to adopt in the case of almost all trades tending to become monopolies.

(18) It may be urged that Local Authorities should retain the unquestionable right to compete with private companies in order to keep in their hands a powerful weapon to be used if it were ever thought desirable to buy up the works owned by these companies. Though this would be a perfectly legitimate way of attempting to control the price to be paid, it would, nevertheless, be but a clumsy and, in some respects, a harmful expedient. It is unwise to threaten any action unless it is really intended to take that action under certain conditions; and, if a Local Authority should start works in opposition to a private company, the competition would be as objection-

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[1] "Relations between Cities and Street Railways." Report of Massachusetts Committee, p. 111.

[2] "Municipal Government in Continental Europe," Albert Shaw, p. 187.

able as that between two private companies; for there would be in both cases the same unnecessary interference with the streets, and the same waste of capital. There would, moreover, be a danger of corrupt influences being brought to bear on the Local Authority to mitigate its competition. Some far more certain and rational method of regulating the price to be paid when private works are purchased by public bodies than that which exists at present ought to be established; and, if this were done, the retention of the right to compete on behalf of the Local Authority would be unnecessary. In short, in all trades for which municipal concessions are required, it appears that an absolute monopoly should be granted by such concessions to one company only to trade over a fairly wide area; and, if a Commission were appointed to deal with such matters, it should be instructed to act on this general principle.

(19) Having decided on the general method of granting concessions, it is natural next to enquire whether any rights should be granted in perpetuity, or whether the original concession should contain provisions giving the Local Authorities concerned the right to buy out the company after the expiry of a given period. This they might wish to do, either with the view of undertaking the work themselves, or of leasing it to some other company, or of re-leasing it to the same company on different terms. It is not only necessary to decide as to the length of time for which concessions should be granted, but also as to how the property should be valued for purchase at the end of the concession

period; and these two questions are so intimately connected that they cannot be discussed separately. Here, again, we are brought face to face with the necessity of making a compromise between the conditions best suited to attract capital and the conditions best suited to satisfy the demands of the consumers and of the public generally.

(20) Until recently, all concessions granted in England, including those for market rights and for gas and water companies, were granted in perpetuity. As regards the more recently developed trades, such as tramways and electric lighting, conditions are now always included in the concessions which enable the Local Authorities concerned to purchase these undertakings at the end of a fixed period. It can hardly be doubted that this change of policy was due to the desire felt by municipalities to work these undertakings themselves should they prove successful, rather than to any mere abstract considerations. Many who object to municipal trading would return to the older system of perpetual concessions merely with the view of putting an obstacle in the path of municipalities. This is not a wise policy, even where the end sought is right; for, if Local Authorities want to undertake the management of any undertakings, they will not be materially hindered in consequence of the concessions having been granted in perpetuity. The only true safeguard against municipalities undertaking unsuitable work is to convince the public that such work had better be left in private hands.

(21) But, putting aside all such questions of

policy, perpetual concessions are to be condemned on many grounds. Even those who are generally opposed to municipal trading may hold that it is difficult to look into the future, and that the road to public management should therefore always be kept open. But a far stronger argument in favour of limited concessions is that it is impossible by means of perpetual concessions either to safeguard the consumer adequately or to capture the unearned increment in the most suitable manner. As to the consumer, a great deal may be done under perpetual concessions by means of regulations, and by sliding scales of *prices* dependent on the interest paid by the managing companies; but the results are never very satisfactory for long. And as to capturing the unearned increment for the benefit of the ratepayer, though little has been done in this respect, something might be done by means of sliding scales of *rents* payable by companies to the Local Authorities. If, however, a municipality is by the terms of the concession given the right to buy up the works constructed by the private proprietors at fixed intervals, opportunities will thus be afforded for making fresh arrangements as to prices and rents with the same or with some other company; and the interests of the public can thus be secured better than in any other way. The possibility of capturing the unearned increment depends mainly on the fact that investors do not pay sufficient heed to the distant future. Little, consequently, is gained by parting with rights over streets in perpetuity as compared with parting with such rights for a limited period, whilst much may thus be lost. Lastly, if a mistake of any kind is made in granting a perpetual concession, a mistake which is very probable when Local Authorities are dealing with the expert promoters of new industries, it may never be possible to rectify that error without unnecessary expenditure; and the mere fact that terminable concessions can be granted with less elaborate provisions for the future is a strong point in their favour. In short, if capital can be attracted in any other way, *perpetual* concessions enabling private proprietors to manage trades tending to become monopolies should never be granted; and experience proves that capital will be forthcoming under a system of terminable concessions.

(22) The history of English tramway enterprise is very instructive as regards the conditions necessary to insure an adequate supply of capital. Tramways can be constructed by private companies in England either under powers granted by Private Acts of Parliament, or under Provisional Orders granted under the Act of 1870. Under this latter Act the Local Authorities have a power of compulsory purchase at the end of twenty-one years at a valuation dependent on the state of the line and on the estimated cost of constructing, *at the date of the purchase,* a tramway similar to the line in question when new. If the cost of building, etc., falls during the twenty-one years, then the valuation at the end of this period will obviously be less than the amount actually expended by the proprietors in constructing the line. For some little time after the passing of this Act, it did not appear that these conditions as to concessions were interfering with private tramway

enterprise, probably because the investing public did not understand them, and because the original promoters, who did understand them, "generally "cleared out as quickly as they could, looking for "their profit to an inflated capital, rather than to "a steady investment yield."[1] Investors soon, however, became shy; and then trade was undoubtedly checked. The harmful result of these clauses was, moreover, especially noticeable at this time because of the introduction of electricity for motive power. Private companies owning expiring concessions could not afford to electrify their lines; for the terms of the concessions gave them no inducement to invest fresh capital, and made it necessary for them to pay away in dividends all the profits they could possibly earn with horse traffic during the remaining years of their industrial life.[2] Before 1896 only about 20 miles of electric tramways had been constructed in England and Scotland; a figure to be contrasted with the 10,000 miles laid in the United States at that period, where the terms of concessions are even too liberal.[3] "The social economic and industrial loss which "Great Britain has suffered through being for the "first time in her history behind other countries in "adopting a new invention of first-class importance "is literally incalculable." It may be possible to point to an individual city which has "gained "ultimately by its dilatoriness" with regard to electrical improvements; because it is possible that while it has been lying fallow and doing nothing, other cities may have been trying and rejecting various inventions. Glasgow, for example, may have relied "on other people's experience" with advantage to itself; but if all the world were to follow this example, no progress whatever would be made.[1] Though delay may sometimes be advantageous, it is quite certain that any regulations which tend to check the investment of capital in any locality will in the long run have a most injurious effect on that locality.

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[1] *Economic Journal*, Vesey Knox, December 1901, p. 504.
[2] M.T.R., Qs. 1212, 1462.
[3] *Economic Journal*, Vesey Knox, December 1901, p. 506.

(23) Experience, therefore, proves that limited concessions in England have worked very unsatisfactorily;[2] and it has often been assumed that the harm done is to be attributed to the fact that the period before the purchase rights came into operation was short, and that it was not due to the conditions attached to those purchase rights themselves. Twenty-one year concessions were granted to electric lighting companies under the Act of 1882; and, when it appeared that this trade was stagnating, the period was increased to forty-two years by the Act of 1888.[3] This I believe to have been a movement in the wrong direction; the reform really most needed in such cases being an alteration in the *method* and not in the *date* of the possible purchase by the municipalities.

(24) It appears to be commonly supposed that a city, by retaining the right to purchase the property of private companies on "good" terms, can thus prevent the shareholders in these companies from reaping excessive or illegimate benefits from the concessions granted to them. This conception

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[1] M.T.R., Q. 2811. Mr S. Chisholm.

[2] M.T.R., Q. 829.

[3] *Ibid.*, Qs. 54, 1646.

is, however, almost entirely erroneous. It has already been pointed out in a previous chapter that when municipalities retain the right to buy out private proprietors on terms that appear to them to be "hard," the inevitable effect is to force these proprietors, whilst they have the power to do so, to impose a tax on the goods sold by them, not for their own benefit, but for the benefit of either the public or the consumer of the future. There is no justification for a tax being thus thrown on the consumer whilst the works are in the hands of private proprietors; and the price to be paid for gas, for example, should in these circumstances be the same as the price which the consumer would have had to pay had the municipality itself taken the gas supply in hand. It follows from this consideration that, if no undue burden is to be thrown on the consumer during the concession period, the price to be given to the private proprietors at the end of that period must not be less than the amount which the municipality itself would have expended in erecting the works at the date at which the concession was granted, a due allowance being, however, made for depreciation. Harder terms than these cannot be justified on economic grounds; and by no terms, however hard, can the burden in reality be thrown by the public on to the shoulders of the shareholders.

(25) If, as above suggested, municipalities retain the right to purchase the works on the basis of the original cost, they will at any time be able to capture the increment of value by exercising this right, and by either managing the works themselves, or releasing them to private proprietors. It is,

however, equally true that in certain circumstances they may capture the decrement of value by such purchases. If, for example, a company erected works which were either unnecessarily costly when erected, or which became obsolete through circumstances which could or could not have been foreseen, a municipality wishing to purchase these works would have to pay under this system of valuation for blunders or for changes in conditions for which it was in no way responsible. Full responsibility and full penalties for all mistakes should, as far as practicable, be thrown on companies undertaking the management of monopolies; and this consideration, no doubt, creates a difficulty in selecting a suitable system of valuation. This subject will be further discussed in a note at the end of this chapter. Here it is sufficient to remark that the method of valuation adopted should be such as would produce no deterrent influence on the owners of capital, and that the public would in the long run not only gain nothing but would lose much by attempting to squeeze the investor by retaining purchase rights on very onerous terms.

(26) Thus the granting of concessions for short periods with hard terms of purchase not only cripples trade, but such conditions cannot be justified by considerations having reference either to the public or to the consumer. This system should therefore be abandoned, and either the concessions should be lengthened, or the method of valuation should be altered. If the concessions were never granted for less than forty or fifty years, plenty of time would be given to the companies concerned to prepare for the day when they might be bought out at a loss;

and neither would the price of the goods supplied have to be materially raised in consequence of this possibility, nor would promoters be seriously hindered by the risks thus involved in their efforts to raise the necessary capital. Thus, in these respects, the lengthening of concessions would be very advantageous. In other respects it would, however, be harmful; for all the objections previously urged against perpetual concessions hold good as arguments against long term concessions, though, of course, with diminished force. The alternative remedy of altering the method of valuation should therefore be adopted in preference. If the right to buy the property of private companies were retained on such terms that no loss need reasonably be expected to fall on the shareholders, then there would be nothing to frighten away capital. Concessions for short periods, be they never so short, will not cripple trade if granted on reasonable terms.

(27) But if concessions are to be for short periods, how short should these periods be? The definite naming of a date at which a change of ownership *may* take place is in itself sufficient to make that change more probable than if no special date were named. The public get the idea that something ought to be done at the termination of a concession; and the advocates of Municipal Trade are likely to find their demands for public management granted at such times without adequate consideration. There would in reality be less risk of hasty action if municipalities retained the right to purchase private works at all times; because the establishment of a municipal industry would in

these circumstances always appear to be an innovation, and one not specially called for at the moment. Another objection to granting concessions for a definite number of years is that the conditions imposed are generally such as make it difficult to carry on the business when the date of the possible purchase is approaching; and American experience has certainly been that "wherever there was a "term franchise about to expire, there was strife"[1] For these reasons it would appear best to grant concessions perpetual in form, but containing clauses which would enable the municipalities concerned to purchase the works whenever they liked; a view which is now shared by several English and American authorities. Under such rules it is true that municipalities would have the power of vetoing the actual commencement of operations by any company by using its right of purchase directly a concession was granted. But in these circumstances it should be enacted that Local Authorities should both refund all legitimate formation expenses, and give a guarantee that they would proceed forthwith with the work themselves. Such a power of veto would not, therefore, be recklessly used.[2]

(28) It is possible that, under certain exceptional conditions, this right of purchase should be denied to municipalities. To take an extreme example, where a tramway runs across a small part of a district under one Local Authority, thus connecting two separated parts of a district under another Local Authority, it would be absurd to place in the hands of this first Local Authority the power

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[1] "Relations between Cities and Street Railway Companies," Massachusetts, 1898, p. 111.

[2] M.T.R., Qs. 1218, 1688.

to damage the whole tramway system by purchasing this small connecting link. Moreover, even when all the public bodies concerned are anxious to buy out a private company trading in several areas, it would be advantageous to insure that some permanent scheme of joint action should be formulated *before* the purchase was concluded. For both these reasons, and following closely the example set by existing Light Railway Orders, it should be enacted that, when the operations of a company extend into more than one local area, and when any one of the Local Authorities concerned objects to the sale of any part of the works to any other Local Authority, such sale should not be permitted to take place except with the consent of the Commission. Possibly other exceptional contingencies would have to be guarded against; but these would be only exceptions, and the right of purchase at all times should remain the rule.

(29) It is undoubtedly true that concessions under which no rights of purchase are retained have the advantage that they produce the least possible tendency to corruption. It is towards the end of a concession period that illegitimate efforts to secure the renewal of the concession on favourable terms are most likely to be made; but if the concession is irrevocable, there will be no such recurrent periods of temptation. This being the case, it may be urged that to allow municipalities to have the right of purchase at all times would be to keep a running sore perpetually open; and there is, no doubt, much truth in this contention. In the United States, the tramway companies "complain that they are con-

"tinually assailed by members of the City Council "with measures partaking of the nature of blackmail; "and, on the other hand," the Local Authorities hold that the companies "are continually engaged in attempts to obtain special privileges by corrupting members of the City Council."[1] But if all questions relating to the granting and interpretation of concessions were dealt with by an independent judicial Commission, the advantages to be derived from bribing elected bodies, and the possibilities of blackmailing companies would be very greatly diminished. The increased security against corruption is one of the very strongest arguments in favour of the formation of such a Commission as is here proposed.

(30) The main object of retaining the right of purchase at all times would be to safeguard the interests of consumers as regards the price and the quality of the goods to be supplied, and to capture the increment of value. To attain these results it would, I believe, seldom be necessary actually to apply to the Commission to fix the price at which the company's property could be bought; though in extreme cases, this might have to be done before it would be possible either to make a new arrangement with the old company or to lease out the works to new managers. The indirect effect of municipalities having the power of purchase in the background would be to enable them in nearly all cases to get satisfactory terms by negotiating with the proprietors. Every effort should certainly be made to avoid litigation before the Commission;

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[1] "Relations between Cities and Street Railways," Massachusetts, 1898 p. 118.

and, with this object in view, concessions should contain clauses intended to insure that justice should be done for as long a period as possible to all the parties concerned without any change being made in the concession itself. Arrangements for this purpose, such as sliding scales of prices and rents dependent on profits, are necessary when concessions are granted in perpetuity; though it is true they can only work well for short periods. Profits must vary widely during long periods on account of causes beyond the control of the management; for the cost of production must change with every change in the price of labour and of raw materials. Such arrangements can be little better than temporary makeshifts; and they do not obviate the necessity for providing occasions for free bargainings between the private proprietors and the public. All that can be done by such expedients is to make these bargainings less frequent; but as this result would be advantageous, it would be desirable to include arrangements for sliding scales of prices or variable rents even in terminable concessions.

(31) The object of including these arrangements in terminable concessions would be to facilitate the safeguarding of the interests of the public. The effect of the two suggested arrangements would, however, be very different; for, with sliding scales of prices, the consumer only would be affected; whilst variable rents would be designed purely for the benefit of the ratepayer. Which should be adopted ought to depend on the particular circumstances of each case. Sliding scales of prices are said to have worked well;[1] but they are open to

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[1] "The State in Relation to Trade," Lord Farrer, p. 90.

the objection that they are easily evaded to a certain extent;[1] and that it is sometimes impossible to make reductions in price except by rather large steps. For example, penny tramway fares practically could not be reduced by less than 50 per cent. Rentals varying with profits, which are not open to this objection, have already been advocated as a means of capturing the increment of value. They are said to be objectionable because they afford an opportunity to municipalities to squeeze private proprietors in an undesirable manner; but there would be little force in this argument if the decision as to the terms of concessions were placed in the hands of an independent commission. If the rents levied were large, they would be equivalent to the imposition of a tax on the commodity sold, which might be objectionable. But in many cases such rents might be levied in moderation on the holders of municipal concessions without harmful effects, provided that certain conditions were adhered to. The terms of the concessions must not be so hard as to prevent promoters obtaining sufficient capital; and the necessary capital will be attracted in the method most advantageous *to the public* if the investor is made to feel as secure as possible of obtaining a moderate return on his investment. No provision should therefore be made for charging a rent whilst the receipts were insufficient to pay more than 4 or 5 per cent. on the sum legitimately invested in the enterprise; whereas a considerable proportional part of any surplus earnings over and above this minimum net profit might with advantage be made to pass into the public purse. Certain practical considerations are said to make *gross receipts* better than *net profits* as a basis for calculating variable rentals; but certainly the *net profits* are preferable for the foregoing reason.[1] The worst system that could be adopted would be the payment of a lump sum down by the promoters in lieu of a rent, or, in other words, the sale of concessions. These are the main considerations which should be held in view in deciding which of these automatic methods of adjustment should be included in concessions.[2]

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[1] M.T.R., Q. 2072.

(32) It will be remembered that in Massachusetts the Commission is given the power of arbitrarily ordering the reduction of prices in the controlled trades at any time. It would be necessary to give some such power to the Commission in those exceptional cases where they are permitted to prohibit the sale of works to municipalities; but, as regards all other cases, it appears to me that this is somewhat too drastic a method for general adoption. Prices can best be settled by bargaining between the vendor and the customer or his representative; and that is the method here suggested. There would, however, be considerable advantages if the parties in the dispute could obtain from the technical Commission an expression of opinion as to the price to be fairly charged, the quality to be supplied, or any other disputed point with regard to the concession; for such an opinion would very often be accepted and useless controversy thereby avoided. It might with advantage, there-

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[1] M.T.R., Q. 1513.

[2] "Essays on Taxation," Seligman, 1895, p. 198; "Economics," Marshall, book v., chap. xiii., sect. 6.

fore, be enacted that the Commission could always be called in on the demand of either party to give a decision on such disputed points; and that for, say, the next two years, the valuation should be decreased by 5 per cent. should the private proprietors refuse to accept the decision and increased by 5 per cent. should the Local Authorities persist in purchasing the works.

(33) Many companies owning perpetual concessions such as those managing English water-works and gas-works, are not permitted to pay more than a certain dividend, and are bound to absorb any surplus profits by reductions in the prices of the articles supplied. The objections to this plan depend on the fact that when this statutory limitation is reached, the private proprietors no longer feel any incentive to economy. Take the case of a gas-work company, for example, paying its maximum dividend. If a change in the conditions of trade takes place, and if, in consequence, prices are reduced, the company may subsequently find itself forced to raise its prices again to the old level in order to be able to continue to pay the maximum dividend. The displeasure of the Local Authority would probably thus be incurred, and such displeasure is always to be avoided if possible. As fluctuations in the conditions of trade are of constant occurrence, it would generally be far more advantageous for a company in these circumstances, instead of reducing prices in good years, to diminish its receipts by such expedients as the erection of unnecessarily costly buildings; a policy which has, I believe, actually been pursued. With ordinary sliding scales of prices the public do not as a rule get a sufficient advantage from causes producing a rise in

dividends from, say, 5 per cent. to 10 per cent., the latter being assumed to be the statutory limit; whereas the absolute prohibition of an increase of dividends above that limit is an arrangement which aims at grasping too much. Some monetary inducement to conduct business economically should always be held out to private proprietors, and a rigid limitation of profits should never be enacted. It is, however, hardly necessary to lay down any such prohibition with concessions terminable at will; for the possibility of fresh arrangements being made if ever profits should appear excessive would make any statutory limitation of dividends almost a dead letter.

(34) There are other matters connected with concessions which require consideration, but which will here be but briefly touched on. In the first place, there are obvious disadvantages in all cases in a wide divergence between the actual investment of cash and the nominal capitalisation. We are now, however, only concerned with the special disadvantages felt in the case of companies owning municipal concessions. Whenever a sliding scale of prices is inserted in a concession, it is necessary to see that this safeguard is not evaded by watering the capital of the company. For this reason alone, the existing regulations as to the sale of new issues by auction by gas companies should be included in all concessions terminable at will; and all the other precautions to prevent over-capitalisation, such as those having reference to the making up and publication of accounts, should be included, even if they should not be strengthened. An Act was passed in Massachusetts to the effect that "No gas company

"shall transfer its franchises, lease its works, or "contract with any person, association, or corporation to carry on its works without the authority "of the Legislature"; and the existing powers possessed by our Government departments for preventing such proceedings should be transferred to the Commission, and perhaps strengthened.[1] When works are bought by Local Authorities, over-capitalisation will, moreover, be objectionable because it will tend either to make the price paid excessive, or to cause suffering to investors labouring under false ideas as to the value of their property. There are cases in the United States where tramway "companies "stand charged with capital stock, bonds, and other "indebtedness nearly or quite ten times the actual "cash cost of construction and equipment."[2] English legislation has been more effective in checking abuses of over-capitalisation; but the recommendations of the New York Committee on tramways that the consent of a commission should be obtained to all capital issues might be adopted with advantage in the case of all companies holding municipal concessions terminable at will.[3]

(35) It is obvious that all questions of capitalisation and all disputes about prices would be more easily dealt with if both the works and the books of the company were open to inspection by the municipality and by a commission; a provision frequently included in German concessions. With

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[1] *Quart. Journal of Economics*, July 1898, "Boston Gas," J. H. Gray, p. 437.

[2] "Report of the Committee on the Municipal Ownership of Railways," New York 1896, vol. i. p. 6.

[3] *Ibid.*, p. 8. See also *Quart. Journal of Economics*, November 1900, Ripley on "Capitalisation."

competitive trades there may be some reason in a demand for secrecy; but, with monopolies no such excuse for holding back information can hold good. When granting a concession to a private company, I see no objection and many advantages in the public retaining every possible right of inspection and examination of works and documents; and severe penalties should be included for wilful falsification of accounts. In electric light orders there is a special clause requiring an audit by the Board of Trade.[1] It is, however, worthy of consideration whether it would not be better to permit municipalities, or the Commission if several municipalities were concerned in one concession, to appoint an auditor, whose audit the shareholders might accept if they liked.

(36) To return for a moment to the subject discussed in the last chapter, namely legislation affecting Municipal Trade, we find that the "gas and electric "light commissioners of Massachusetts have ample "powers to prescribe the way in which all accounts "of municipal gas and electric plants shall be kept. "In addition to the annual sworn reports of these "accounts, which must, according to law, be made to "the commissioners, they have authority to demand "additional reports in any detail whenever they so "desire. The commissioners have exercised their "powers through an elaborate set of rules and forms "regulating all the accounts of municipal gas and "electric plants. The annual reports of the com-"missioners contain the substance of the reports "from all of the cities and towns owning gas and "electric systems [in Massachusetts], and constitute "the most important and accurate body of data

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[1] M.T.R., Q. 869.

"relative to such municipal plants that has ever been "compiled in the United States."[1] It is most important that municipal accounts should be comparable one with another, and also, as far as practicable, with the accounts of private companies undertaking the same trade; and, if this desirable result is to be arrived at, a certain uniformity of method must be insisted on. The Commission here suggested, though established primarily with the view of dealing with questions affecting private trade, should also be entrusted with all questions affecting municipal trading statistics; and, to enable them to perform this duty satisfactorily, they should have the right to inspect the works and books of all municipal trades, as well as of all private trades managed under municipal concessions.

(37) Another question worthy of consideration is the distribution of the work to be done in the streets in connection with water, gas, electricity, tramways, etc., between Local Authorities and private managers. Even in cases where private proprietors own all the plant in the streets, municipalities should, nevertheless, have the right to undertake certain portions of the work in the streets at the expense of the company (as is the case at present sometimes with English tramways); the Commission being called on to decide disputed questions.[2] As to tramways, there is, however, much to be said in favour of a system "not unknown in Great Britain "and elsewhere, but to which the experience of "Germany is more especially tending—a system "under which the municipality both owns and

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[1] *The Journal of Political Economy*, University of Chicago Press, Alton D. Adams, March 1902, p. 222.

[2] M.T.R., Qs. 896, 1348.

"controls the whole surface of its streets, whether "paved with other material or with iron, and leases "to a private company the right to run vehicles over "prescribed routes on tracks therein specially pro-"vided." In considering the application of such a system to other trades besides tramways it must be remembered that it would be wise always to leave the construction of such parts of the works as are of a high technical nature to the proprietors who will be responsible for the working of the system. The same remarks apply to all work of an experimental character; and, for this reason, new systems should be entirely constructed by the companies concerned. Moreover, difficulties might arise as to the responsibility for accidents under any divided system. But if these limitations are carefully held in view, it appears to me that the general policy should be "to have everything pertaining to the street "and pavement pass into the ownership of the muni-"cipality at some not remote future time, leaving the "municipality free" to enter in fresh contracts with private proprietors from time to time; and this not only with regard to tramways, to which these words were intended to apply, but as far as may be to other street disturbing monopolies as well.[1]

(38) To summarise the foregoing conclusions, we see that the present system of granting concessions is not satisfactory; that a reformed system should be introduced under which all questions concerning future concessions should be placed in the hands of a judicial and technical commission; that this Commission should grant absolute monopolies to

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[1] "Relation between Cities and Street Railways," Massachusetts 1898, pp. 29 and 30.

private proprietors under concessions terminable as a rule at will by the municipalities concerned, the existing rules as to valuation being materially modified; and that such concessions should include, as far as practicable, sliding scales of prices, or variable rents (one or both), and also provisions giving to the Commission and to the Local Authorities the fullest powers of inspection of works and documents. Since no concessions, however skilfully worded, can continue to constitute for a long period a suitable bargain between the public and the private proprietors, it should be so arranged that the Commission could be called in at any time to facilitate negotiations for the granting of a new concession acceptable to all parties.

(39) When we pass on to consider how far it would be expedient to apply such a system as is here described to existing companies which own perpetual concessions, we enter on more difficult ground. It would generally be admitted that if there is reason to believe that it would be advantageous to municipalise any trade, the State has the right to buy out the private proprietors at an equitable valuation. If this be admitted, it certainly follows that the State has an equal right to cancel a perpetual concession and to impose any new conditions, provided that equitable compensation be given to the private proprietors. This compensation should be equal to the difference between the values of the property before and after this cancellation of the concession, both the values being estimated on the same system of valuation as is held to be equitable in the case of purchases of going concerns for the purpose of establishing municipal trades.

And here we have to consider which is best; to municipalise an established trade, or to grant a terminable concession to the company managing it in the manner above suggested.

(40) It may be urged that a municipality would never pay money down in order merely to acquire an increased power of control over a trade; and, that when perpetual concessions have once been granted, the only practical choice is that between the existing condition of things and municipal management. To consider this point, let us take the case of gas-works in the hands of a private company, and let us in the first place assume that the trade is thoroughly well managed and that the prices charged are moderate. In these circumstances no immediate public benefit will follow either the municipalisation of the gas-works or the granting of a new concession terminable at will to the private proprietors; and the municipality would be tempted to let matters alone. But it should be remembered that the compensation for the substitution of a terminable concession with a fair system of valuation for a perpetual concession would not be large; and it would probably be wise to pay a moderate sum, not for any immediate benefit, but as a safeguard as regards the future. Next take a case where the gas-works were well managed, but where the prices charged were high. In these circumstances, if the works were left in private hands, and if new conditions were imposed necessitating a reduction in prices, a considerable sum would have to be awarded to the proprietors as compensation for any losses thus imposed upon them. But, if in the same circumstances the works were municipalised, and if the

prices were then reduced in a similar manner, the loss falling on the town would amount to about the same sum as the compensation above mentioned, granted, again, that there was no change in the efficiency of the management. Lastly, if the high prices charged by the private proprietors were due to bad management, and if in consequence the profits made were not large, then the management would be somewhat more likely to be set right by a compulsory transference of the works to another company rather than by municipal management; granted, that is, that the views here expressed as to the relative merits of public and private management are correct. In short, if in truth such a system of controlling private enterprise as is here suggested is, on the whole, more beneficial than the system of Municipal Trade, then that system could and should always be adopted in preference to Municipal Trade.

(41) The proposal to enforce new conditions on the holders of perpetual concessions would at first be opposed on account of its novelty and on account of difficulties connected with the necessary valuations. But, if these new regulations were adopted in all new concessions and at the termination of all expiring tramway and electric lighting concessions, experience would soon tell whether they were or were not on the whole beneficial; and this proposal would quickly begin to wear a very different aspect. If terminable concessions proved to be a success, there would then be little difficulty in substituting them for perpetual concessions, due compensation being given for the loss inflicted on the private proprietors. As part of that compensation, municipalities might buy the land owned by the companies, receiving rent for it;

or, what would come to much the same thing, they might guarantee the debenture interest. By some such arrangement as this, the compensation payable might, at all events, be considerably diminished. But, whether the privilege would be much used or not, it would in my opinion be right that the Commission should have the power at the demand of any municipality of deciding on the compensation payable to the owners of perpetual concessions on cancelling these concessions, and of deciding on the terms of the new concessions to be issued in their stead.

(42) In conclusion, it should be understood that the proposals here made for the reform of legislation having reference to the private management of monopolies should be considered merely as tentative suggestions. My object has been to show that much remains to be done in this direction, and that, in considering the policy to be adopted for the future, Municipal Trade ought to be compared with private trade conducted under far more efficient safeguards than those which exist at present.

Note.—Valuation is a matter for experts to deal with in detail; and, not being an expert, these notes must, even more than the matter in the text, be regarded as tentative only. There are several possible methods of valuation which could be adopted when the right of purchase is reserved by municipalities in terminable concessions.

(1) *The market value;* or the price which would have to be paid by private purchasers in the open market for a going concern. This is obviously the right basis of valuation when a company owns a perpetual concession, and when the works are being purchased compulsorily under a private Act of Parliament; for in such cases, if it be once admitted that it is right to give less than the market value, then there is no logical resting-place until complete confiscation is reached. Whether any additional sum should be

given on account of the purchase being compulsory in cases where there is no just cause of complaint against the private proprietors need not here be discussed; for such purchases are not now under consideration. The market value of a going concern at the end of a concession period, when rights of purchase are retained, depends on the terms by which those purchase rights are reserved; and the phrase *market value* standing alone becomes meaningless in these circumstances. It would be possible to estimate the market value of an undertaking with a terminable concession on the assumption that the concession had been granted in perpetuity. This method has the advantage that it would encourage proprietors to continue to develop their undertaking to the end of their concession period, because, market prices being influenced by prospective profits, they would reap some benefit from judicious expenditure before it became productive. The objection to this valuation is that it hands over to the proprietor the whole of the increment of value, except such sums as are obtained by means of variable rents or sliding scales of prices; expedients which are, however, never quite satisfactory. A more serious objection to this valuation is that, when valuable rights over public streets have been granted to private proprietors for little or no valuable consideration, the public would, under this system, have to buy them back at their full market value. There is no reason why the public should pay anything whatever for buying back rights they freely grant to private owners for a period of years only.

(2) *The sum invested;* or the amount of cash actually invested by the existing proprietors in buying their property and in developing it. The objection to this valuation is that it may include money paid corruptly or injudiciously in acquiring the concession, money expended on faulty works, and sums representing the inflation of capital occurring through amalgamations or at the transference of the property from previous owners. To guard against this evil, and to insure that the sum actually invested should always correspond with a sum representing the proper and legitimate capital expenditure on the enterprise would certainly necessitate an excessively strict control by the State; and even such a control would very likely not produce the required result. For this reason this system of valuation should be rejected.

(3) *The legitimate capital expenditure;* or the capital expenditure which would have been incurred by original proprietors acquiring a concession direct from the State and only expending their capital in erecting at fair prices the actual works in existence, and in

providing for the necessary and legitimate formation expenses, less a reasonable allowance for wear and tear, dependent on the state of the works. The objections to this system are as follows:—(*a*) All capital expenditure would cease for a long time before the close of the concession period, because investments are as a rule at first unremunerative. This objection, which applies equally to the last-mentioned system of valuation, might be met by including in the valuation a sum representing interest at a diminishing rate on all authorised capital expenditure incurred during a short period before the valuation took place. Under concessions giving municipalities the right of purchase at all times, proprietors would thus be secured against actual loss from new developments; and they would therefore continue to make progress in the reasonable expectation of being allowed to remain in possession. (*b*) Legitimate incorporation expenses would have to be included; and many years after the granting of the concession they would be difficult to estimate. (*c*) If the proprietors erected unsuitable works, the public would have to pay for their blunders. (*d*) The proprietors may have erected works which were the most suitable that could have been erected at the time, and they may have built them in the most economical manner; but, at the date of the purchase, such works might be quite out of date, and, even if they were not so, it might be possible to build them more cheaply. The public therefore might under this system have to pay more than if they had to erect new works, and might, into the bargain, become possessed of an obsolete system. On the other hand, the public would not be worse off than if they had erected the works themselves at the date of the granting of the concession, and it is *not therefore an inequitable system for a short period after the concession has been granted.* The advantage of this system is that it is the method most calculated to attract capital, and that, with it, concessions may be either for short periods, or the right of purchase at all times may be retained.

(4) *The replacement cost;* or the cost at the date of purchase of building new works capable of producing the same output as the works purchased, less an allowance for wear and tear. The objections to this system of valuation are as follows:—(*a*) The fact that the valuation depends on the cost of erecting something different from that which is bought introduces considerable difficulties; as, for example, with reference to the necessary allowance for wear and tear. To obtain a correct valuation, the value of the plant as it stands must first be ascertained, and this sum must then be deducted from the estimated value of the *same* plant when

new; the difference between these two estimates, or the allowance for wear and tear, must then be deducted from the estimated cost of new works of the most approved pattern which are estimated to be capable of producing the same output as the old works; and thus the correct valuation is finally obtained. Three separate valuations are, therefore, necessary. (*b*) By this method of valuation as above defined, no allowance is made for formation expenses; and the cost of erecting new works may be less than the original cost of erecting the works which are being sold. For these reasons the sum received by the proprietors is likely to be less than the sum actually and necessarily expended by them. The result would be either that the capital would not be forthcoming, or, if it were forthcoming, that the consumer would be inequitably taxed during the concession period. This constitutes the chief objection to this system; for it necessitates long concessions being granted.

Thus it appears that the *legitimate capital expenditure* is the best basis for valuation for short concessions, and that the *replacement cost* is the best basis for long concessions. The cost of erecting electric lighting stations fell very rapidly a few years ago, and a purchase at a replacement cost valuation shortly after the granting of a concession would have inflicted a very heavy loss on the proprietors. On the other hand, when buying up gas-works, for example, after they had been running for more than half a century, it would be absurd to make the original cost of the works, including the original formation expenses, a main consideration in the valuation. Thus, if municipalities are to have the right of purchase at any time, a compromise between these two systems should be adopted. The following system is suggested. The price to be paid should be, for each part of the work capable of separate valuation, whichever is the greater of the two following valuations:—(*A*) The *legitimate capital expenditure*, *plus* some allowance for interest on capital shortly after its expenditure, and *minus* an allowance for wear and tear, *less* (*say*) *3 per cent. per annum for every year since the expenditure was incurred*, or (*B*) *the replacement cost* less an allowance for wear and tear. If this plan were adopted, for some years after the construction of the works in question the legitimate capital expenditure would probably serve as the basis of the valuation; whilst at a later period the price would be determined by the replacement cost. The private proprietor would, it is true, always receive the higher of two valuations; but this objection would only be urged against this compromise by those who failed to understand its economic results.

In the foregoing discussion, the plant, machinery and formation expenses have been mainly kept in view. As to the land on which the works may stand, if the valuation were made on the basis of the cost of replacement, it would be logical to assess its value according to the price of similar land at the date of the purchase. But this might be very much more than the sum it actually cost the private proprietor. The Local Authority should therefore have the right of having the value of the land ascertained and inserted in the concession at any time, and of buying the land at any subsequent time at that valuation with or without buying the works, the rent to be paid for the land, if bought without the works, being determined by the Commission. See on this subject W. Z. Ripley on the "Capitalisation of Public Service Corporations," in the *Quart. Journal of Economics* of November 1900; and Vesey Knox on the "Economic Effect of the Tramways Acts," in the *Economic Journal* of December 1901.

XIV

CONCLUSION

(1) The main arguments for and against Municipal Trade, which have been discussed in the foregoing pages, may be very briefly summarised as follows: The arguments against Municipal Trade are that it greatly increases the danger of municipal corruption; that it diminishes competition and checks commercial progress; that it may make Town Councils less able to perform their normal duties efficiently; that the enterprises selected will be intrinsically less remunerative than if the selection had been left in private hands; that the management will be more costly; and that it practically places in the hands of some Local Authorities, and not of others, the power of raising indirect taxation on certain goods. The following arguments in favour of Municipal Trade were also considered: First amongst these arguments was that founded on the undoubted fact that the workmen employed by municipalities receive better treatment than if the work had remained under private proprietors; but it appeared that this argument could not be sustained, because the State is not justified in selecting a special class on which to bestow special favours at the expense of the remainder. The second argument in favour of Municipal Trade was that prices would thus be

reduced, or that a profit available for the relief of taxation would thus be made; but the available information indicates that remunerative undertakings, if leased to private companies, would be a source of revenue to municipalities, and many circumstances make it probable that the more industry is left in private hands, the more rapid will be industrial progress; whereas statistics indicate that any further municipal expenditure on remunerative undertakings will result in an immediate increase of local taxation; and, as to the ultimate consequences, and merging together the interests of the consumers and the ratepayers of the past, present, and future, *a priori* reasoning renders it probable that the community will neither gain nor lose materially as the result of the municipal management of monopolies; and, for the foregoing reasons, it would therefore be most unwise to base our policy for the future on the hope of any financial benefits to either consumers or ratepayers from Municipal Trade. Even if the statistical results of Municipal Trade in the past should prove on further investigation to be more hopeful than is here indicated, it must be remembered that this experience is somewhat scanty. To quote a parallel case, if a landlord were to raise a loan by a mortgage on his land, and were to invest the proceeds in half a dozen commercial enterprises, to show that he had made a net profit during the first thirty or forty years of his speculation could not be taken as a proof that it would be wise to follow his example; because, as a general rule, in the absence of special opportunities, and taking losses into account, the gross profits thus made are likely to be no greater than the interest payable on the debts incurred. The last and far the most important argument in favour of Municipal Trade is that councillors, unlike directors, will not be guided by profit alone, and will, therefore, be more prompt to remedy grievances involving expenditure, and will be ready to undertake various services necessary for the health, the morals, and the general convenience of the community, which are not sufficiently remunerative to tempt private proprietors to undertake them. Though this argument may be unanswerable in the case of some of the trades tending to become monopolies, it has little weight in the case of competitive industries, provided they are uninjurious; because Municipal Trade gives no valuable safeguards to consumers who already possess the power of changing their sources of supply.

(2) As regards ordinary competitive trades, the case for Municipal Trade in fact breaks down utterly; whereas, with regard to monopolies, this cannot be said to be the case. If a company obtains such a power as that of breaking up the streets, it may thus acquire a practical monopoly of the sale of certain commodities; and in such cases it is essential that the State should exercise a certain control over the industry, and should regulate prices within certain limits. This necessary control brings with it some of the evils of Municipal Trade, the greater the control the greater being the attendant disadvantages, though, of course, the greater the power of safeguarding the consumer. The balance of advantage and disadvantage may therefore be far more even in the case of trades tending to become monopolies, and the decision far more difficult to make. If the monopoly be allowed to remain in

private hands, how much will the citizen be inconvenienced, and how well can the consumer be protected by the State? And can and should the ratepayer or the consumer be made to share with the shareholder in the advantages arising from the growth of the town and from economic management? On the other hand, if an industry be transferred to a Local Authority, will the consumer be as well supplied, and will local taxation thus be increased or diminished? These are the main questions which should be considered with regard to each separate industry before it is handed over to municipal management. As regards the question of convenience, it was seen that it might be right for the care of the surface of the streets to be entirely in the hands of the Local Authorities; but that such an admission did not carry with it the conclusion that tramways, or other works built on municipal property, should therefore be *managed* by a local governing body.

(3) The foregoing being the main arguments for and against Municipal Trade, the logical way to attack the problem under consideration is to take each enterprise the municipalisation of which has been undertaken or suggested; to weigh carefully all these arguments as they are applicable to each one separately; and then to decide in which cases municipal enterprise is on the whole advantageous. In proportion as the possibility of competition is greater, in proportion as the number of workmen employed is greater, in proportion as the risk involved is greater, in proportion as the demand for the commodity supplied is less universal, and in proportion as the business is more difficult to

manage, in proportion to each of these varying circumstances must the case in favour of municipalisation be stronger before such a step can be held to be advisable. But, besides such general considerations as these, many special circumstances connected with different localities at different times may have to be taken into account; such as the size of towns, and the local aptitude for self-government; though, since changeable factors should not weigh too much in making decisions difficult to retract, these points are generally of less importance. Every one who makes such an enquiry must come to the conclusion that some enterprises, whether they be called trades or not, are best managed by local elected bodies, whilst others are not. Great diversity will, however, naturally exist as to the exact place at which the line should be drawn. Pending further enquiry, I myself am disposed to say that markets, public baths, slaughter-houses, and cemeteries had better not be in private hands; that water supply should generally be municipalised; that harbours should often be managed by Local Authorities, or by specially constituted public bodies; that there is much to be said in favour of tramway tracks being owned and repaired by municipalities; but that, as a rule, private trade is preferable for telephones, gas-works, electrical works, tramways, and, without doubt, for all truly competitive trades, the case against Municipal Trade being weakest in the first-mentioned services. As regards telephones, gas and electrical works, if once municipalised, it might not be wise to retransfer them to private hands.

(4) After separating the enterprises under con-

sideration into these two great classes—those which it is right to place under the control of public bodies and those which it is not—we should naturally wish to discover some formula by which to distinguish the two; a formula by which we could in future decide at once whether any particular enterprise should or should not be municipalised. With regret I must confess that I have found it impossible to discover any such general guiding principle. Water-supply is worked by private companies for a profit on purely commercial principles; and, if we once admit, as I do, that it may often be right to municipalise it, we shall find it very hard to discover any simple form of words which will cover this action, and yet condemn the municipalisation of other commercial ventures which ought to remain in private hands. Each case must be judged separately by the way in which the balance will turn when the scales are loaded with all the conflicting arguments, there being no royal road to a simple solution of the problem.

(5) But here it should be observed that there are two distinct questions to be considered; questions which are often somewhat confused one with the other, especially by Members of Parliament. What trades should Parliament permit municipalities to manage? What works, within the powers thus granted, would municipalities wisely undertake? The action of Parliament must be governed to a great extent by rules and precedents; and the character of towns differ so widely that no rule could be framed which would be suitable to all, and precedents established in one

case are, therefore, often bad guides for other localities. Parliament is not so well able to consider all the local conditions as are the Local Authorities on the spot, and Parliament, therefore, ought, in many cases, to leave to the municipalities concerned the decision as to what is right or wrong. Such a trust in Local Authorities is in accordance with our constitution and with the spirit of the people. But Parliament should forbid the municipalisation of any industry when it is held that such municipalisation would be wrong in all places and in all circumstances; and I should, therefore, wish to see the municipalisation of all truly competitive industries, such as the manufacture of electrical fittings for example, definitely prohibited by Parliament. An exception to this rule is probably necessary in the case of the manufacture of residual products, when such manufacture is essential for the economic working of some monopoly; but any such extension of municipal management into competitive fields should be jealously watched. As to gas-works, electric-works, and tramways, many Members of Parliament may feel as I do, that, though they would prefer to see these services remain in private hands, yet they are not now prepared to declare that in no circumstances whatever should these industries be managed by representative bodies, and they would be still less prepared to cancel any such rights of management as have now been granted. Moreover, if existing municipal gas-works are to be allowed to remain as at present, the political difficulty of refusing to grant the right to other municipal governments to manage similar works cannot be ignored. Parliament cannot, in fact, be expected to draw a much more rigid line than at present with regard to the monopolies already frequently entrusted to Local Authorities. But any precedent set with regard to competitive trade should not, I hold, be allowed to carry any weight. For example, the provisions in Acts of Parliament which permit municipalities to own houses and actually to build them—that is without the employment of a contractor—should be repealed; though I have little hope of Parliament taking so bold a step. In fact, as to the limitation of municipal trading, Parliamentary reform must, for the most part, consist in changes in Standing Orders, in the establishment of new precedents and in the ignoring of certain old ones.

(6) With regard to the second of these two questions, if Parliament leaves the decision on many points in the hands of Local Authorities, it follows that these Local Authorities must often be enabled to do things which they had better not do. No objection to the existing system should, however, be raised on this ground only; for it is the inevitable result of any wise devolution of powers and duties. It would, no doubt, be advantageous if a rule could be devised which would serve as a guide to municipalities in deciding what enterprises should be undertaken; but I can suggest none, and all that have been suggested by others appear to me to break down on careful examination. It is, therefore, consolatory to think that no such rule, could one be devised, would be as useful as would at first sight appear probable. If we tell the advocate of municipal enterprise that the

establishment of municipal electrical works, for example, is against our formula, whatever it may be, he will simply tell us that that formula must be altered. He will not be stopped from doing something he thinks beneficial by any such intangible barrier as a rule or principle. Our task must always be to convince him that the proposal is really injurious when it is so, and this can only be done by proving to him that the advantages are outweighed by the disadvantages in the particular industry under consideration.

(7) But even if we agree that Parliament is wise in trusting municipalities with wide powers, and, even if we cannot formulate any guiding rule as to the proper limits of municipal trading, we may, nevertheless, feel convinced that Local Authorities have gone too far in this direction, and that they are showing every disposition to advance still further. This certainly is my conviction, and in these circumstances I hold that we ought to consider very carefully whether a brake cannot be applied in order to put some check on this movement, and to keep municipal adventure in the future within reasonable limits. There are two kinds of precautions which might be adopted. We may make changes, or adopt economic safeguards, which are intrinsically desirable, or we may introduce what may be described as political checks; that is, arrangements which are devised to secure a desired end, but which are not in themselves intrinsically beneficial. In the preceding chapters these political possibilities have received but little consideration; our attention having been confined mainly to desirable economic

safeguards. These safeguards against unwise municipal trading, which have already been discussed, will first be briefly epitomised.

(8) First amongst these checks I would place certain legislative reforms affecting private trade; and, before recapitulating my suggestions, it may be as well to point out why this question is in danger of being considered in a one-sided fashion. Before all committees of enquiry, and at all conferences, the witnesses and speakers consist mainly of two classes; that is, they are either advocates of Municipal Trade, or they are persons interested in the promotion of private trade. The views of both these parties have often been admirably expressed. But is there not another great class to be consulted? Surely the consumer, or the ordinary citizen, ought to have a say in the matter; and yet his voice is generally silent. It is his views that I have in this volume tried to enunciate. One of the sentiments that tells most strongly in favour of Municipal Trade with the mass of the people is the belief that the consumer will get his grievances more readily attended to if a trade is managed by an elected body than if it is owned by a private proprietor. Though the great companies who manage our gas and water-works have, on the whole, served the community very well, yet there is a certain foundation for these complaints; and that foundation we ought to remove. When we are granting to private traders valuable rights connected with the use of our streets, would it not be wise to retain the full right to remedy all the reasonable grievances of the future consumers of the commodities thus to be supplied? Yet, as

regards any minor grievances against gas, electrical, or other such companies, the ordinary citizen is now in a position of great helplessness. By increasing the control over private monopolies we are no doubt running into many of the dangers attached to municipal trading. But the dangers of controlling private enterprise, though very real, are much less than the dangers of Municipal Trade; and as the choice lies between the two, by all means let us have controlled private trade. At present sufficient attention is not paid to the complaints of citizens against private proprietors; and until we do attend more to such grievances, even if many of them are unreasonable, it cannot be said that we are doing our best to stem the advancing tide of municipal enterprise.

(9) Reforms should, therefore, undoubtedly be made in the legislation affecting private trade with the object, not only of freeing it from undesirable restriction, but also of adding desirable restrictions. The exact steps to be taken are, no doubt, open to serious question. My suggestions include changes with regard to concessions, which should be granted without a named limit of years, but including the right of purchase by Local Authorities at all times on such terms as will not throttle private enterprise; restrictions on the power of veto on private enterprise now exercised by municipalities; wide powers of inspection by municipalities of all the affairs of companies receiving such municipal concessions; and the appointment of an independent and technical commission to decide any questions that may arise between the Local Authorities who represent the citizens and the companies managing monopolies in their districts. Until some such reforms as these

have been adopted, Municipal Trade will present many advantages to which it has no exclusive right.

(10) As regards the political checks which have been suggested with the object of clipping the wings of municipalities, the two most important proposals are the limitation of municipal debts and the prohibition of profits in municipal trades. As to the former, municipal debt limit clauses in some form or other have been inserted in nearly every State constitution adopted in the United States during the last half century; the limitation imposed on municipalities as to their indebtedness ranging between 2 and 10 per cent. of the assessed value of property returned for taxation.[1] These limitations appear to have been introduced in order to check grants in aid to private companies rather than to check municipal trading in the ordinary sense. In England debt limitation should be discussed with reference rather to municipal extravagance than to Municipal Trade; and in that connection the question is a most important one. As to municipal trading debts, the importance of the available assets cannot be ignored; for, though further enquiry is greatly needed, and though in some cases the assets are certainly not sufficient to cover the debts incurred, yet there is no reason to suppose that, as regards the more definitely trading enterprises, the assets are not, on the average, of more value than the outstanding debts. The fact that considerable sums have already been redeemed renders this result probable. From the financial

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[1] See Hon. R. P. Porter's paper at the British Association, September 1902.

point of view there is, however, one serious danger connected with Municipal Trade which must ever be kept in view; and against this danger a debt limitation clause would be very valuable. If, in any town, municipal trading has been largely undertaken, and if for any cause the population begins to decline before the debts thus incurred have been redeemed to any material extent, the result must be a reduction in municipal profits and an increase in local taxation. And the serious aspect of the case is that, in these circumstances, taxation is likely to go on increasing at a geometrical ratio; for the desire of the inhabitants to leave the neighbourhood will increase with every increase of taxation; and the burden of taxation will increase with every new departure of inhabitants. There are in these circumstances every condition necessary to produce commercial disaster and municipal bankruptcy.

(11) But there are certain objections to municipal debt limitations which must not be overlooked. In the first place, where municipal trading is popular, such a limitation of borrowing powers might induce Local Authorities to neglect some of their primary functions; unless, indeed, a separate limitation could be placed on municipal trading debts, which would be difficult. Then, again, it must be remembered that limitations have a tendency to stimulate an advance up to the limit imposed; and it might well be that some municipalities, by being induced to borrow up to the limit, would become more indebted than if no such limitation had existed. It would be difficult to devise a rule which would vary with the existing state of indebtedness of each town; and if so,

it follows that in England the limitation imposed would have to be a very wide one, and that it would only come into operation in extreme cases. Considering these objections, and how difficult it would be to induce Parliament to take such an unpopular step, I am not yet convinced that it would be wise at present to agitate in favour of this reform.

(12) A check on the increase of municipal indebtedness which would in my opinion be more effective on the whole, and certainly more easy of introduction, would be to give the citizens in all localities a direct veto on the raising of loans. This might be done by enacting that, before any Local Authority could acquire the right to raise any new loan, a vote should be taken, voting papers being sent to all voters by post, together with a statement as to the amount of the loan and its objects. Some means might have to be devised for exempting small loans from the operation of such a law. Advantage might also be taken of such a proposal to strengthen the hands of the Local Government Board; for it might be enacted that their inspector's report should always accompany the voting paper. A project unfavourably reported on by such an independent authority would in many cases be rejected; for citizens are generally less favourably disposed towards municipal trading projects than councillors, and many enterprises would never be undertaken but for the apathy of the voters in expressing their opinions. Such a referendum would not be opposed to liberal principles, and it would be a valuable safeguard against municipal extravagance in all its forms.

(13) Passing on to the second of the above-mentioned means of checking municipal adventure, namely the prohibition of profit-making in municipal trades, it appears that many Local Authorities are unduly tempted by the hope of reducing taxation, and that this hope affords the advocates of Municipal Trade a cogent argument in its favour. This subject has already been partially discussed in chap. xii., where it appeared that this proposal is open to serious economic objections, at all events as regards trades with debts partially or wholly redeemed; that it would be difficult to enforce because of the difficulty of giving a definition of the *profit* to be prohibited, and because of the minute inspection which would be necessary to prevent such an enactment from being evaded; and that too low prices, and consequently small or no profits, are likely to be a far more real danger than too high prices and excessive profits. As to the last-mentioned point, it is true that, when but a small fraction of the voters are supplied by a municipal manufactory, the Local Authority will be under some temptation to raise prices and thus to make large profits for the benefit of the more numerous body of unaffected voters. But such a temptation ought seldom to be felt; for such trades should seldom be municipalised. Moreover, if Local Authorities were forced to carry on their enterprises without making a profit, it would not lessen the disadvantages arising from such trading operations; in fact, it might increase them somewhat. The compulsory absorption of profits would probably be partially effected by a further increase in the

pay of municipal workmen, or by a reduction in municipal rents; and the tendency to municipal corruption would thus become even more formidable. If, on the other hand, the profits had to be absorbed by a reduction in prices, the interference with private trades would become even more harmful than it is at present; because this would be equivalent to municipalities not only being enabled but being obliged, when their trading debts were redeemed, to spend the interest on their accumulated savings in giving bounties to the consumers of goods produced by their own manufactories. The prohibition of profits is, therefore, intended to defeat an argument rather than to cure an evil; and, if it does not defeat the argument, the evil may thus be increased. This will be seen to be a serious objection to this proposal when it is remembered that the prohibition of profits in Scotland has had little tendency to prevent municipal trading. Lastly, it is impossible to ignore the keen opposition which would be aroused by any attempt to force great cities like Birmingham and Manchester to forego the large profits they are now making and to increase local taxation to a like amount. For all these reasons, the legal prohibition of profit-making would, in my opinion, be unadvisable. But the hope of making a profit is, no doubt, one of the main objects which many advocates of municipal trading have in view; and, as municipal enterprises should not be undertaken with this object, it would, without doubt, be advantageous to lessen this temptation. This proposal, which is supported by very high authorities, and any other proposal aiming at the same results, should, therefore, undoubtedly receive the most careful attention.

(14) Several important reforms in the English Local Government suffrage laws are needed; but, as they are, for the most part, more relevant to the question of extravagance than to the question of Municipal Trade, they will be but briefly discussed here. There are, I believe, millions of English voters who pay no rates, and who do not perceive that their rents are affected by any increase or decrease in the rates falling on their landlords. Rents may not be immediately or uniformly affected by rates; but on the average and in the long run it may truly be said that rent-payers are also ratepayers. It is of vital importance that this fact should be recognised; and it would be most beneficial if either all tenants were made to pay the rates themselves, or if in some other way all voters were made to feel that they are in effect ratepayers. No other step would have such an effect in tending to produce municipal economy. Unfortunately it has been stated on the highest authority that, as to rates, "it is generally "agreed that the practical difficulties of collecting "and enforcing payment from the large numbers of "the poorest classes in the large towns who are "weekly tenants and frequently moving from one "tenement to another, are insuperable"; though why this statement should be made, considering that the unrated householder does not exist in Scotland, I do not know.[1] The number of unrated voters might, at all events, be diminished.

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[1] "Final Report of the Royal Commission on Local Taxation," 1901, p. 51.

But, whether any such change would greatly lessen Municipal Trade may be doubtful, a doubt which experience in Scotland tends to confirm. Municipal trades are generally initiated in periods of municipal energy, and, consequently, of municipal efficiency; and it will not be until this efficiency wanes, or until unforeseen changes take place in any of the main conditions affecting the trades undertaken, that the shoe will begin to pinch and the voter will begin to be influenced by a trade loss and by a consequent increase of taxation. It will then generally be too late to retrieve the initial mistake. But, as a means of drawing the attention of voters to all matters affecting or possibly affecting local taxation, the abolition of the compounding system would be invaluable. I much fear, however, that we shall have to wait a long time before this reform is taken in hand; for, even if practicable, the political forces opposed to it are very strong.

(15) Another very difficult question, and one more relevant to Municipal Trade, is that connected with the rating of the property of companies. The "liberal" principle of taxation going hand in hand with representation is entirely overlooked in the case of shareholders; for they are in effect ratepayers who have no voice whatever in the imposition of local taxation or in the expenditure of the revenue thus raised. The importance of this question may be illustrated by the single fact that one great London railway company now pays close on £200,000 a year in rates alone, and that this amount represents an increase of more than 150 per cent. on what it was twenty years

ago.[1] But, though it is easy to state the grievance, it is difficult to suggest a remedy. The arguments in favour of giving to one man one vote whether he contributes little or much towards the national expenditure depend on the fact that all men have an equal right to demand justice, and that the poor man needs protection and attention more than the rich. Bearing this in mind, it would be hard to defend giving to the nominee of a company the right to vote in proportion to the rates paid by that company. In a parish where a railway company pays "practically the whole of the local "rates," and where, as would most frequently be the case, there is not a single resident shareholder, any attempt at progress in education, sanitation, or recreation would be brought to a standstill by such a system; for shareholders would naturally instruct their nominees to oppose all rates for which they received no equivalent benefit. If the company's nominee were empowered to vote, but not in full proportion to the rates paid by the company, the same evil effects would still be felt in extreme cases, whilst the shareholders would still have a grievance at not being fully represented. Moreover, any such reform would probably necessitate a very serious modification of our whole voting system in order to enable companies to vote in proportion to the rates paid by them. All this is true until we come to consider the case in connection with rating for municipal trading purposes, when the matter bears a very different aspect. Here it is the rich man who needs protection because of his riches. Even as regards the question of justice, how is it possible to defend the imposition of taxation or even of a liability to taxation on unrepresented shareholders in order to facilitate the establishment of a rival to themselves in trade, which may be the case when a railway company is forced to pay rates to Local Authorities who are initiating tramway enterprises? How is it possible to defend the power which Local Authorities have of paying their workmen a higher rate of wages than those paid by companies who are forced to supply the necessary funds without such companies having any effective means of protesting? On the other hand, if companies were given voting powers, they would by no means be opposed to enterprises which would either diminish taxation or increase the value of property. There is, in fact, no reason why shareholders should not be granted voting powers in proportion to the rates paid if Municipal Trade alone had to be considered; and the logical thing to do would be to establish a separate elected body for the management of such enterprises, the number of votes given by each voter being solely based on the amount of the rates paid by him. Without doubt, moreover, we should in this way check the tendency to undertake unwise trading enterprises, and create a body more fit to manage such industries as were municipalised. There would be a difficulty in deciding which of the remunerative undertakings should be managed by this specially elected body, and the multiplication of elected bodies is always somewhat objectionable; but the main difficulty in the way of this proposal is a purely political one, namely the fierce opposition it would call forth.

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[1] *Times*, 11th November 1902.

(16) Thus far have we been occupied in con-

sidering reforms undertaken mainly with the definite object of preventing municipalities from undertaking trades unless the case in favour of such trading is well established. But municipal trades will be undertaken both wisely and unwisely, and reforms ought to be introduced with the object of minimising the harmful effects of such enterprises. All my suggestions on this point have already been discussed, including the more rapid redemption of debts when profits are being made; the abolition of preferential charges; the introduction of a Government audit; the more rigid enforcement of the laws as to municipal expenditure; a referendum on local loans; and the separate enfranchisement of municipal workmen. Reforms of this nature are in my opinion desirable; though of these only the last mentioned would very materially lessen the objections to Municipal Trade.

(17) Thus the reforms here suggested have three distinct objects in view: the rendering of the management of monopolies by private proprietors more suitable to the needs of the community; the prevention of Municipal Trade when it would be undesirable; and the lessening of the disadvantages attending Municipal Trade when it is undertaken. Other reforms than those here suggested should, no doubt, be taken into consideration; such, for example, as reforms in the methods of assessment; an increased control by Local Authorities over expenditure either by the formation of finance committees with statutory powers or by other means; and changes in parliamentary procedure in the direction of increasing the facilities given to private individuals or associations in opposing bills

introduced by Corporations. My list is, without doubt, defective and incomplete; but it certainly proves the necessity for an immediate and thorough consideration by the Legislature of the whole question of Municipal Trade.

(18) There are, unfortunately, at present many influences antagonistic to a rational treatment of this subject. In the early part of last century economists and liberal statesmen were in all probability too much imbued with the ideas of individualism; but at the present time the pendulum has swung too much in the opposite direction. Local Authorities in England are, on the whole, admirable bodies, and councillors deserve the highest praise for the immense amount of voluntary work undertaken by them. I am the very last person to wish either to lessen their reputation or to curtail their powers of administration. But they, like their fellow-countrymen generally, have gone too far in certain directions in their acceptance of Socialist ideas. The "true reasons in favour of leaving "to voluntary associations all such things as they "are competent to perform would exist in equal "strength if it were certain that the work itself "would be as well or better done by public officers." These reasons are: "the mischief of overloading the "chief functionaries of government with demands on "their attention, and diverting them from duties "which they alone can discharge, to objects which "can be sufficiently well attained without them; "the danger of unnecessarily swelling the direct "power and indirect influence of government, and "multiplying occasions of collision between its agents "and private citizens; and the inexpediency of con-

"centrating in a dominant bureaucracy, all the "skill and experience in the management of large "interests, and all the power of organised action, "existing in the community; a practice which keeps "the citizens in a relation to the government like "that of children to their guardians, and is a main "cause of the inferior capacity for political life "which has hitherto characterised the over-governed "countries of the Continent, whether with or without the forms of representative government."[1] The lesson thus stated by Mill as regards the central government has been forgotten, and must be learnt again by municipalities as regards local government, if they are to travel on the path along which progress can best be made.

(19) Reform is much needed; but what is even more necessary than legislative reform is an awakening of public interest in municipal questions. A minority of the citizens in most towns are so active that they somewhat hide the great apathy of the majority. I should have no fears as to the future of municipal enterprise in England if Englishmen generally would form their own independent opinions, whatever they might be, and would take the trouble to express them at the polls. Every one who endeavours to bring about this desirable end is doing good service for his country.

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[1] "Political Economy," Mill, book v. chap. xi. para. 11.

APPENDIX

JOINT COMMITTEE ON MUNICIPAL TRADING OF 1903

WHILST this volume has been passing through the press, the Report of the Joint Select Committee of the House of Lords and the House of Commons on Municipal Trading has been issued. The main conclusions arrived at by this Committee are contained in the following extracts from this Report:—

1. The present Committee may be regarded as continuing the inquiry held by the Joint Committee on Municipal Trading appointed in 1900, an identical Reference having been made in each case.

5. The Committee felt that any attempt to survey the general subject of Municipal Trading could only have led to a second postponement of the inquiry, as it would have been impossible for them in the short time available before the close of the Session (when the existence of every Committee is terminated) to issue a Report upon the whole subject.

They agreed, therefore, to devote their attention to one or more distinct aspects of the question, passing by others until Parliament should be pleased to direct further inquiry.

6. The first branch of the subject with which the Committee decided to deal was that of municipal accounts, with regard both to the form in which they are prepared, the systems under which they are audited, and the right of access to them possessed by the ratepayers. The evidence taken has been mainly directed to these questions.

7. Whatever view may be taken of the proper limits, if any,

which can be set to municipal trading, it is clearly important that wherever it exists, ratepayers should be not less fully and continuously informed of the success or failure of each undertaking than if they were shareholders in an ordinary trading company.

8. In a large number of cases this is undoubtedly done. But there is in some instances evidence to a contrary effect, and in view of the ever-increasing number and magnitude of municipal undertakings, it is most desirable that a high and uniform standard of account-keeping should prevail throughout the country.

10. The Committee have directed full attention to the question of audit.

11. The Committee recommend that a uniform system of audit should be applied to all the major local authorities, viz.: the Councils of counties, cities, towns, burghs, and of urban districts.

14. All County Councils, the London Borough Councils, and Urban District Councils are subject to the Local Government Board audit. This audit is carried out by District Auditors, who as a rule are not accountants, and are not, in the opinion of the Committee, properly qualified to discharge the duties which should devolve upon them. By special local Acts the Corporations of Tunbridge Wells, Bournemouth, and Southend-on-Sea must, and the Corporation of Folkestone may, adopt the Local Government Board system of audit. The duties of the auditors seem to be practically confined to certification of figures, and to the noting of illegal items of expenditure.

15. To apply this system of audit to Municipal Corporations would arouse strenuous opposition from them, and the course may be considered impracticable; but in addition to this the fact that district auditors are not accountants seems to unfit them as a class for the continuous and complicated task of auditing the accounts of what are really great commercial businesses.

16. The Committee accordingly recommend that—

(*a*) The existing systems of audit applicable to corporations, county councils, and urban district councils in England and Wales, be abolished.

(*b*) Auditors, being members of the Institute of Chartered Accountants or of the Incorporated Society of Accountants and Auditors, should be appointed by the three classes of local authorities just mentioned.

(*c*) In every case the appointment should be subject to the approval of the Local Government Board, after hearing any objections made by ratepayers, and the auditor, who should hold office for a term not exceeding five years, should be eligible for re-appointment, and should not be dismissed by the local authority without the sanction of the Board.

(*d*) In the event of any disagreement between the local authority and the auditor as to his remuneration, the Local Government Board should have power to determine the matter.

(*e*) The Scots practice of appointing auditors from a distance, in preference to local men, to audit the accounts of small burghs should in similar cases be adopted in England.

17. The Committee are of opinion that it should be made clear by statute or regulation that the duties of those entrusted with the audit of local accounts are not confined to mere certification of figures. They therefore further recommend that—

(*a*) The auditor should have the right of access to all such papers, books, accounts, vouchers, sanctions for loans, and so forth, as are necessary for his examination and certificate.

(*b*) He should be entitled to require from officers of the Authority such information and explanation as may be necessary for the performance of his duties.

18. Auditors should be required to express an opinion upon the necessity of reserve funds, of amounts set aside to meet depreciation and obsolescence of plant in addition to the statutory sinking funds, and of the adequacy of such amounts.

19. The auditor should also be required to present a report to the Local Authority. Such report should include observations upon any matters as to which he has not been satisfied, or which in his judgment called for special notice, particularly with regard to the value of any assets taken into account.

20. The Local Authority should forward to the Local Government Board both the detailed accounts and the report of the

auditor made upon them. It should be the duty of the auditor to report independently to the Board any case in which an authority declines to carry out any recommendation made by him.

21. A printed copy of the accounts, with the certificate and report of the auditor thereon, should be supplied by the Local Authority to any ratepayer at a reasonable charge.

27. The Committee suggest that in view of the large changes recommended by them it might be advisable to create a new body, in the form of a Board of Commissioners of Local Audit, in some respects analogous to the Railway Commission. This body could be entrusted with the powers which the Committee recommend in their Report should be vested in the Local Government Board.

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